FINANCIAFI

WEDNESDAY SEPTEMBER 18 1996



Hong Kong

Post-1997 illusions and delusions

Philip Stephens, Page 15



US banking

fight back





Philippines Tiger status



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Europe's most respected companies.

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Gold held in UK may be given to holocaust victims

Nazi gold which has lain in the Bank of England's vanits for 50 years could be trans-ferred to the families of holocaust victims. UK foreign secretary, Malcohn Rifkind, yesterday said he would raise the possibility of transferring the metal, which has a current value of about £31m (\$48.36m). Recovered from Germany after the second world war, the gold is held in the name of the UK, US and France. Page 10

Hackers threat: Hacker attacks on commercial Internet sites are raising fears for the security and reliability of the world wide computer network. Sites have been swamped with false requests, tying up the computers and denying legitimate users access. Page 16; Western skills shortage, Page 10

italy's rall probe deepens: Italian police made more arrests as prosecutors deepened their probe into alleged corruption and fraud involving Italy's state railway. Page 2

China threat over Dalai Lama: China threatened Australia with trade retaliation if prime minister John Howard goes ahead with plans to meet the Dalai Lama, Tibet's exiled spiritual leader. Page 16

Czech crisis: The Czech republic's central bank stepped in to prevent a liquidity crisis at Agrobanka, the country's biggest private bank, as financial ripples spread from a previous bank failure. Page 16

Nikko Securities, one of Japan's top four brokers, slashed its earnings forecasts as singgish summer trading on the Tokyo Stock Exchange hit commission revenue. Nikko now expects interim unconsolidated recurring profits of Y20bn (\$181.2m) before extraordinary items and tax - down 22 per cent from the previous year. Page 20 ; World stocks, Page 36

Cube undermised: Cube has negotiated ficals with 40 companies in the eight months since the introduction of the US Heims Burton law punishing non-US companies for doing business with Haveila, givernment effective and

Sameung damps Felicer hopest South Korean conglumerate Samsung played down hopes that it was poised to acquire Feliker and denied having signed a letter of intent to purchase the bankrupt Dutch aircraft maker. Page

Experts check Chernobyl: Radiation levels surged inside the ruined fourth reactor at Ukraine's Chernobyl nuclear power plant. Experts are investigating whether this could trigger a chain reaction. The reactor exploded 10 years ago and was encased in concrete.

Izetbegovic leads in Bosnia poll: Bosnia's Moslem president Alija Izetbegovic looked set to beat his Serb rival in the race to head the new collective leadership.

Yeltsin set to stay in hospital this week



Russian president Boris Yeltsin (right) will probably spend the rest of this week in a Moscow hospital undergoing tests before planned heart surgery. But he was well enough to receive prime minister Victor Chemomyrdin (left) for an hour. Page 8

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The dinosaurs



awaits

Survey, separate section

Leeson's bid to be a star led to Barings crash

By John Gapper and

Mr Nick Leeson, the former derivatives trader for the merchant bank Barings, started hiding losses in a secret account within weeks of starting trading in Singapore in July 1992, according to an investigation by FT reporters.

The investigation has estabished that Mr Leeson, who is

in jail in Singapore, used his hidden account numbered

88888 to absorb losses caused

by selling derivatives to cus-

tomers of Barings at artifi-

cially low prices. The investi-gation — to be published in a book next week - has found that in September 1992, Mr Leeson in effect gave away \$450,000 in pricing subsidies to investment banks and funds that were buying futures through Barings. It found that the root of the

Barings collapse lay in an effort by Mr Leeson to make himself seem a star executor of orders on Simex, the Singapore futures exchange, by giving Barings' customers improvements on market prices. Mr Leeson does not seem to

ALL THAT GLITTERS The Fall of Barings BARINGS Page 8

have been motivated by personal gain, but was attempting to ensure a smooth start in his new job. However, the losses created by his improvements to futures prices later spiralled out of control.

Official inquiries into the

collapse in February 1995 have bighlighted the rapid growth in hidden losses in 1994, when Mr Leeson was trying to gam-ble his way out of trouble. Barings finally collapsed when the

osses reached £830m.
But it has not been clear execution of some types of why Mr Leeson started to use his hidden account to absorb losses in 1992. Mr Leeson himself has claimed that he built up losses in an effort to cover up "errors" made by junior traders whom he supervised. The investigation, drawing on interviews with traders

futures trading was so far out of line with the rest of the market that Barings' customers were charged an extra commission for the opportunity to deal through him.

There is no suggestion that the banks that bought futures through Mr Leeson's unit Bar-

confirmed that most of these

losses were not caused by

errors. Instead, they stemmed

from Mr Leeson's use of

account 88888 to subsidise his

By spring 1993, Mr Leeson's

execution of trades.

Banque Paribas, Fuji Bank and Chemical Banking - knew why they were being offered relatively cheap prices.

However, other traders employed by Barings suspected that Mr Leeson might have been achieving such prices by taking risks on mar-

Nine former managers of Barings, including Mr Peter Norris, its former chief executive of investment banking, have either been banned for up to three years for failing to prevent the collapse, or face who worked with Mr Leeson, ing Futures - including such bans by City regulators.

EU seeks to use \$1.2bn surplus for beef aid

Brussels and Alson Maltland

European Union farm tions by Mr Karel Pinxton, the ministers yesterday made a Belgian farm minister, that the controversial bid to use a surplus of about Eculbn (\$1.27bn) in the 1996 farm budget to aid the ailing beef sector.

They rejected a proposed cut the EU surplus to be used to in aid to cereal farmers to fund a mon-up of surplus beef stocks, caused by falling con-

The French initiative could pit farm ministers against finance ministers intent on EU budgetary procedures.

The farm ministers also rejected a plea from Britain to renegotiate a cut in the cull of 125,000 cattle, agreed by EU a phased lifting of the export ban on British beef.

The British government was last night set to tear up the agreement, though it may press ahead with its own limited cull of about 22,000 cattle at high risk of contracting BSE or mad cow disease from their A British official said Mr

Douglas Hogg, the agriculture minister, would report to the cabinet committee on BSE tomorrow. The chances were high that the full cull would be abandoned, he said. Mr Franz Fischler, European

expressed "extreme concern' at possible British action to reduce the cull. EU officials rejected sugg

EU might retaliate by cutting off funds earmarked to help Britain cope with the crisis. Commenting on the call for

help the beef sector, Mr Fis-chler said the money had not been earmarked for beef production and would normally be returned to member states. Spending the money before the end of the 1996 financial chaining back EU sarpiness to year on October 15 would pre-help out national budgets to vent the surplus being most the criteria for monetary returned to member states' col-

Mr Fischler warned that a legal basis for shifting money between the 1996 and 1997 budgets would have to be found. An EU official said the promembers in June in return for posal would still have to "get past national budget authori-ties. They are unlikely to be sympathetic, with the Masstricht criteria for monetary

union hanging over them." The Commission has estimated that Ecul.Sbn will be needed to take excess beef stocks off the market. Mr Fischler has proposed raising the money by cutting aid to arable farmers, including a reduction of 7 per cent in payments to cereal farmers.

But most members states rejected his proposals. Britain, Denmark and Sweden were the only countries to support the



French finance minister Jean Arthuis (left) and his German counterpart Theo Waigel told the meeting of the Franco-German economic council that their countries' economies were developing in parallel and would grow faster next year

Paris and Bonn vow to meet Emu date

yesterday pledged to bring their deficits back below 3 per cent of gross domestic product next year so that the European single currency can start as scheduled on January 1, 1999. After a regular six-monthly meeting of the Franco-German

economic council, Mr Theo Waigel, the German finance minister, and Mr Jean Arthuis, his French counterpart, said the countries' economies were developing in parallel and would grow faster next year.

Mr Arthuis – who is due to present his 1997 budget to the cabinet today - forecast that French GDP would grow by 2.8 per cent in 1997 up from 1.3 per cent this year, while the German government expects fas2.5 per cent in 1997 from about this weekend will reach agree all decisive points", he said fiscussions still had to be held

The ministers also reported Germany and France progress towards agreement on Germany's call for a stability pact to ensure that fiscal deficits stay under control once European economic and Mr Arthuis underlined the monetary union has been established

However, differences of detail remain, making it uncer-European economic and the stability pact in recent finance ministers in Dublin months and were "clear about

Germany agreed that a stability pact was essential for the welfare of Europe's citizens and the success of Emu, while

But, while Mr Waigel insisted that France and Gertain whether the meeting of many had moved "very far" on

WITH A MASTER'S TOUGH AND THE TEST OF TIME

discussions still had to be held Mr Waigel said France and on the sanctions that would be applied to countries that failed to keep their deficits below 3 per cent. In particular, the size of the deposits and fines that would be levied still had to be

> Mr Hans Tietmeyer, the Bundesbank president, said the stability pact would have

Continued on Page 16 Arthuis's Emu faith, Page 2

Olivetti shares fall again as investor confidence ebbs

Paul Taylor in Paris

Pressure on Olivetti to clarify its financial and trading position was increased by Italian stock market supervisors and magistrates yesterday, as investors' confidence in the information technology group continued to ebb.

executives worked on a swift response to 16 detailed questions posed by Consob. the stock market watchdog. Judicial sources at Ivrea,

where Olivetti has its head- within 24 hours to allay marquarters, confirmed that mag- ket concerns about the compaistrates were investigating Mr ny's financial situation. Carlo De Benedetti, Olivetti's. The watchdog's move fol-Antonio Tesone, his successor, of meetings with analysts in about allegations that the company issued misleading half- Mr Caio had been due to Caio, the chief executive, is results. The shares have lost costs.

vetti was expected to issue a questions, first posed by stock market regulators in meetings with Mr Caio and other directors last week.

The most important questions relate to the valuation of Olivetti's stakes in subsidlaries and associated compa-The group's shares fell a fur. nies, the reasons behind a ther 10 per cent to another L200bn (\$132.10m) first-half record low of L465 as Olivetti: provision for future disposals and restructuring, and Olivetti's exposure to credit risk on certain large contracts. On Monday, Consob insisted

that Olivetti issue a statement

Milan and London, at which

Ind. Cap Mids

also under investigation. Oli- nearly 40 per cent of their partial response to Consob's the month. A day after Mr De Benedetti's resignation as chairman, Mr Renzo Francesconi resigned as director-general in charge of finance at the

The group has denied allega-

holding company.

tions by Mr Francesconi that the half-year results were worse than those published. Meanwhile, Siemens Nixdorf Information Systems, the computer unit of Siemens, the German industrial group, ruled out purchase of, or partnership with. Olivetti's problematic

personal computer subsidiary. Mr Cato wants to move Olivetti away from the PC busibroad-based information techformer chairman, and Mr lowed Olivetti's postponement nology and telecommunications group. He has ruled out closing down the subsidiary, which has been a source of year results. Mr Francesco explain the group's first-half heavy losses and restructuring

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CONTENTS

Gold Markets . int. Band Service .

Dutch budget aims at single currency

By Gordon Cramb in The Hague

The Dutch government yesterday unveiled a 1997 budget designed to assure the guilder entry into a single European currency – holding the public deficit well within the criteria agreed for monetary union and bringing down further the troublesome level of

Mr Gerrit Zalm, finance minister, was also able to offer the corporate sector a better taxation regime for dividends and other financial income. For industry there were modest benefits aimed at stimulating research and development, and individuals gain from a Fl 1bn (\$590m) cuts in tax and social security levies. The budget, otherwise

broadly neutral, reflects growth in gross domestic product, forecast to accelerate to 2.75 per cent in 1997. This is up from an expected 25 per cent this year, a level already above the European

Union average. Like other countries seek-ing to join Emu, the Netherlands' eligibility will be judged on the way next year turns out. Domestic inflation and interest rates, as well as the exchange rate, are all likely to stay comfortably within Maastricht treaty lim-

The government deficit is to be brought down to 2.2 per cent of gross domestic product, well below the target ceiling of 3 per cent set for aspirant members and down from the 2.6 per cent expected for this year. In 1995 the deficit still stood at 4 per cent of GDP.

Government debt is projected to emerge at 76.2 per cent of GDP, but the reduction from 79.7 per cent recorded in 1995 and the 78.8 per cent expected for this year was, the finance ministry maintained, enough to established the "clear downward trend" allowed as a fallback position under

Maastricht. In addition to economic growth, cuts in government dies, as well as increased public sector efficiency, have helped bring about the

Prof Lex Hoogduin, a central bank economist, told an Institute of Directors seminar in The Hague yesterday that the projections were vulnerable to setbacks in the state's attempts to bring down its outgoings on wel-Social security payments

will remain linked to wages

but, in a greving society. state pensions are to be brought under scrutiny with a likelihood that provisions will be reduced in the future. Of the tax changes, one of the most significant will allow an effective rate of just 7 per cent for multinationals which centralise their finance activities in the Netherlands. A risk reserve can be created to absorb interest or leasing income and service fees. The shift makes the country more competitive with Belgium and Ireland, which have

Dividends accrued by companies will under another measure be subject to a total tax levy of 51.3 per cent. The previous rate, in the absence of a system such as the UK's advance corporation tax, was at times above 70 per

en seeking to attract such

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Relaxed finance minister vows France will fit the Maastricht bill

Arthuis holds firm in Emu faith

By David Owen and Andrew Jack

For a man who will today unveil the most important and closely scrutinised French budget of recent years. Mr Jean Arthuis seems in remarkably relaxed

At dinner last week in the finance ministry's vast mod-ern Bercy headquarters in east Paris, he indulged in a cigar and the occasional joke before returning to his paperwork.
Did the finance minister's

good humour suggest the doubters had nothing to worry about? That the detail of the budget would not after all finally shoot the government's fox by making it clear France had next to no chance of qualifying for economic and monetary union

Certainly, he insisted as firmly as ever that the government would hit its target of restricting the general budget deficit to 4 per cent of gross domestic product in 1996 and 3 per cent in 1997.

This is the maximum permitted by the Maastricht treaty's convergence criteria which set out conditions European Union member states must fulfil to join the planned single currency.

But he went considerably further, stressing that the aim for 1998 was to hold the deficit at 3 per cent, and that the five-year target was to cut it to less than 2 per cent.

And he claimed that today's finance bill would be an important landmark in its own right since, for the first time in many years, it would provide for a level of government spending that was no higher than the previous year, after taking account of inflation.

"That is very good news," he said. "France was late to realise that high public spending risked stifling the economy and destroyed the potential for creating jobs. There was a feeling that ever higher public spending was inevitable. But now the direction is turning. This supposedly ineluctable trend has at last been stopped."

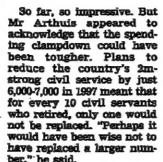
6 It is essential not to allow any backsliding either on the criteria, or on the proposed timetable.We want the treaty, all the treaty and nothing but

the treaty. I refuse to imagine the hypothesis in which monetary

French Finance Minister Jean-Arthuis

take place.9

union will not



ber," he said. In his discussion of the detail of the government's deficit arithmetic, he said nothing likely to alter the strengthening impression of international observers that if France did fit the Masstricht bill, it would be thanks to the imaginative handling of certain excepcom, in return for the transfer of certain pension liabilities, which will count for the purposes of the 1997 deficit. On this year's deficit, Mr

Arthuis said the government would hit its target of 4 per cent of GDP even if the deficit of the social security system was significantly higher than the original FFr17bn projection. Lower-than-expected receipts as a result of the country's sluggish growth and near-record unemployment mean that many observers now expect the shortfall to be about three times this figure.

Mr Arthuis said this gap would be offset by a number

So far, so impressive. But tional items. These include a of factors, including a surone-off FFr37.5bn (\$7.4bn) plus of approximately payment from France Télé-FFr15bn from Unedic, the government's unemployment benefit fund; a small surplus from the Cades, a new body set up to refinance the country's accumulated social security debt from previous years; and "good news" from the local and

regional authorities. He also indicated that the government would avoid including the FFr2.6hn cost of its recent rescue package for Credit Foncier, the specialist property bank, by paying for it out of proceeds from France's extensive privatisation programme. These are not normally counted for the purposes of the Maas-tricht criteria.

As for 1997, most analysts estimate that the France Télécom payment - equivaleut to nearly 0.5 per cent of GDP - would not be quite enough for the government to hit its vital 8 per cent target unless the economy grows faster than the 2 per cent to 2.25 per cent currently expected.

In this case, many expect ministers to turn to a more customary piggy bank, the Caisse des Dépôts et Consignations, a state-owned financial institution, to make up the difference. The government has passed no comment on recent reports that it is planning to take FFr18.5bn from this source in 1997, and Mr Arthuis bridles at any suggestion that there would be anything wrong in such a move.

"The Caisse des Dépôts is always complaining that we are taking their money," he said. "But what does this mean? It is a bit like you drawing money out of your account at Barclays Bank. The Caisse des Dépôts manes money for the account of the state."

Nevertheless, the fact that France is already resorting to such special payments is causing concern among some economists, who fear the government may have nothing left to pull out of the hat if growth is further impeded by events such as a recurrence of last winter's crippling strikes. Mr Arthuis argued simply that renewed industrial action on the scale of last year was unlikely. "People are more reasonable

this year," he said. In what could be interpreted as a further sign of confidence, he made it clear he was against any move to make the Maastricht requirements less onerous.

"It is essential not to allow any backsliding either on the criteria, or on the pro-posed timetable," he said. We want the treaty, all the treaty and nothing but the treaty. I refuse to imagine the hypothesis in which monetary union will not take place.

EU showdown, Page 14 Editorial Comment, Page 15

Italian rail probe widens Italian police yesterday made further arrests as prosecutors deepened their investigation into allegations of corruption and fraud involving the Italian state railway. Police arrested two magistrates and Mr Pier

Francesco Guarguagiini, chief executive of Oto Melara, the state-controlled arms manufacturer with headquarters in La Spezia, where the investigation began.

The prosecutors will today question Mr Lorenzo Necci,

The prosecutors will today question Mr Lorenzo dello Stato chief executive of the state railway Ferrovie dello Stato (FS). He and three others were arrested at the weekend in connection with an investigation into allegations of fraud,

embezziement, corruption, abuse of office, falsification of accounts and crimes against public administration. Yesterday the La Spezia magistrates ordered police searches of a number of Rome addresses. These included the office of Raca, the FS subsidiary which was the vehicle for last year's acquisition of a 20 per cent stake in Contship Italia, a private container-handling and freight company which owns the La Spezia container terminal and is behind the revival of the port of Giola Tauro in Calabria, southarn Italy.

Spain, Italy robust on Emu

Spain and Italy both tried to douse scepticism about their prospects for joining the European single currency at the end of a bilateral summit meeting in Valencia yesterday.

Mr Romano Prodi, Italy's prime minister, said both countries were equally determined to be part of European monetary union from the launch date of January 1, 1999. Asked if Italy's commitment to the timetable was as strong as Spain's, he said it had "the same solidity".

Mr José María Aznar, his Spanish counterpart, spoke

only for his own government's position, however, reaffirming his piedge to take "all the necessary measures" to enable Spain to participate in the single currency "from the first moment". David White, Madrid

Cashless' pay at VW

Volkswagen yestarday announced a new "cashless" pay scheme, under which employees will receive part of their wages in the form of a new security called a "time-value share". The scheme allows workers to build up savings to finance early retirement, or merely to use them as credit Wolfgang Münchau, Frankfurt

Chernobyl radiation fears

Radiation levels inside the Chernobyl nuclear power plant's ruined fourth reactor rose sharply this week and a director said yesterday specialists were investigating whether this could cause a chain reaction. Mr Valentyn Kupny, in charge of the "sercophagus" surrounding the reactor, said meters inside the cracking steel and concrete structure had shown big increases for a time on Monday. Scientists did not have full control of the nuclear fuel still inside 10 years after the explosion.

EU foreign plan from Paris

France is pressing the European Intergovernmental conference (IGC) to accept its plan for a more permanent "troiks" to represent the European Union in world affairs. The current troiks changes every six months to accommodate the country holding the rotating presidency as well as the previous and future holders.

Mr Michel Barnier, France's European affairs minister, proposed to the IGC last week that the troiks should only include the country currently in the chair together with a new "high level" foreign policy co-ordinator of the Council of Ministers and a single European Commissioner for foreign affairs which France hopes the IGC will commissioners to around 10, with just one responsible for foreign policy which is at present split between five of the

French officials yesterday welcomed support from Germany's ruling CDU party for the new-style troiks, which they also claimed had not met opposition from other EU partners. The aim is for the EU to be represented by a team that does not change totally every 18 months, but has at least two members with terms of 4-5 David Buchan, Paris Editorial comment, Page 15

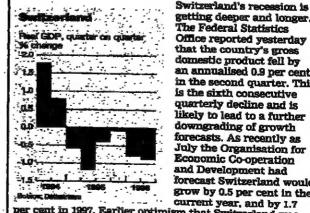
BIS under pressure on gold

The Bank of International Settlements yesterday came under intensified pressure over the fate of gold looted by the Nazis, with a demand from Mr Alfonse D'Amato, chairman of the US Senate's banking committee, to publish its records from the time.

Mr D'Amato said: "We have discovered documents at the US National Archives, some of which have only been declassified this year, and explain in great detail the numerous shipments of gold from the Reichsbank to the BIS, as well as shipments of gold to Argentina. These documents detail wast amounts of gold accepted by the BIS that might well have not been repatriated after the war." In a letter to Mr Andrew Crockett, BIS chief executive, Mr D'Amato asked for the bank's records to help his committee "close this chapter on the war once and for all". John Authers, New York

ECONOMIC WATCH

Swiss recession gets deeper



getting deeper and longer. The Federal Statistics Office reported yesterday that the country's gross domestic product fell by an annualised 0.9 per cent in the second quarter. This is the sixth consecutive quarterly decline and is likely to lead to a further downgrading of growth forecasts. As recently as July the Organisation for ocomic Co-operation and Development had forecast Switzerland would grow by 0.5 per cent in the current year, and by 1.7

per cent in 1997. Earlier optimism that Switzerland was finally shaking off its reputation as Europe's weakest aconomy has been undermined by news of rising unemployment and the strength of the currency. GDP growth estimates for 1995 were revised down from 0.7 per cent to 0.1 per cent earlier this month. Mr Peter Buomberger, chief economist of Union Bank of Switzerland, yesterday forecast a 0.6 per cent fall in GDP for the full year followed by 1 per cent growth in 1997. William Hall, Zurich

Spain's unemployment rate fell to 22.04 per cent in June from 22.27 per cent in May, according to the National Statistics Institute (INE) survey of the active population. INE said the number of jobless fell by 34,920, or 0.99 per cent, in June to 3.5m. The number of employed climbed by 20,110, or 0.21 per cent, to 9.776m in June from May. The INE figure compares with the 14.15 per cent unemployment rate in June calculated by the Labour Ministry using the number of unemployed persons registered in the offices of the National Employment Institute.

EU MPs to demand Netherlands state TV protection seeks more power for EU A legal adviser at the by the court in later rulings. European Court of Justice A ruling against Sweden

The European parliament is today expected to issue a strong call for state-owned broadcasters to be protected by European legislation against fast-growing commercial companies.

A report by Ms Carole Tongue, a British member of the parliament's dominant Socialist bloc, calls for legislation allowing "stable and realistic state aid" to continue to public broadcasters. It also calls for satellite and cable companies to be barred from being exclusive transmitters of sports events, and for state channels to be allowed to bid jointly for TV rights without falling foul of

EU competition rules. The controversial report was debated yesterday and is expected to be adopted by a majority today, although a series of amendments has been tabled by the Christian Democrat European People's Party, the second biggest bloc. The EPP says the report fails to recognise the importance of competition in broadcasting, and the benefits brought by commercial

channels. The report warns that public service broadcasters' audience share in the European Union almost halved from 82 per cent in 1984 to 46 per cent in 1994, as commercial companies such as Germany's Kirch and Bertelsmann, France's Canal Plus,

has told Sweden, which bans TV advertising aimed at children, that it cannot restrict commercials broadcast from another EU state, Reuter reports from Brus-

Advocate-General Murray Jacobs issued an opinion yesterday saying the European Union's television without frontiers directive "prevents a member state from taking action against television advertisements broadcast from another mber state". Opinions by the advo-

cates-general are only advisory, but are often followed

BSkyB have expanded. It says that with state broadcasters facing hundreds of new digital channels, public service broadcasting is in danger of becoming marginalised as it is in the US, with European TV dominated by downmarket programming on largely pay-TV channels.

Although the parliament's resolution is not binding, a strong vote in favour would put pressure on the European Commission to bring forward proposals. It comes as public service broadcasters find themselves

under attack for receiving unfair support. Mr Karel Van Miert, EU competition commissioner, is investiga-ting complaints from comand Mr Rupert Murdoch's mercial broadcasters that

could prevent it from intervening against advertisements broadcast from other KII countries.

Europe's advertising industry sees the case as a critical test of its right to provide services across the EU. Sweden is the only EU country that has a general ban on advertising aimed at children under 12. Mr Jacobs said EU law allowed Sweden to ban such com-mercials if both the advertiser and the broadcaster were based there and they were broadcast on a domes tic TV channel received only by viewers in the country.

public channels including France 2 and France 3, Portugal's RTP, and Spain's TVE benefit from unfair state aid.

The right of state channels to club together to bid for sporting rights was also challenged by a European Court ruling in June.

The parliament resolution says public funding should be regarded as legitimate for public broadcasters, even if they can supplement this through other means such as advertising provided funding is proportionate and they are fulfilling public service obligations. The resolution also says

that public service broadcasters must be able to reach audiences through all avail-

By Gordon Cramb

The Dutch government yesterday set out its stall for its presidency of the European Union, which will run for six months from January during a crucial period in moves towards further inte-A foreign ministry docu-

ment published with the annual budget papers notes that the Inter-Governmental Conference launched in Torin in March to review the Maastricht treaty - con-cluded the last time the Dutch were in the chair - is due to be concluded by mid-1997. Depending on the rate of progress, the Netherlands could be in charge while the final details are resolved.

The process would lead to a treaty which "must provide the Union with more power, effectiveness and democracy," the ministry says in an advance glimpse at a programme likely to arouse further anguish among British Euro-eceptics. The new treaty must at the same time be more saleable. more transparent and more sible to the public than at present," it says.

The Hague is in line with Britain on free trade and a number of budgetary issues but it does not share its EU's institutional develop-

also seek to "give an impulse" to enlargement of the union towards central and eastern Europe, and with it any necessary adjust-ments to trade and environmental policies. It warns the US of its con-

ment, the document says.

The paper goes on to note that the BSE 'mad cow' cri-

sis has further complicated the UK's already awkward

relations with its partners.

The Dutch presidency will

cern over the extra-territorial effects of laws passed by Congress which seek to inhibit multinationals from doing business with coun tries such as Iran, Libya and notably Cuba where ING, the Dutch financial group, this summer had to find a way around Washington leg-islation which restricted its ability to fund the sugar har-

But the foreign ministry acknowledges that there remain problems with its European continental partners in the Schengen accord. ment of goods and people across national borders. It urges the removal of French frontier controls, seen by Paris as a necessary restraint on drugs traffic from the Netherlands. Electronic scanners to search for drugs are to be installed in city's Schiphol airport.

Brussels to probe Crédit Lyonnais

By Neil Buckley in Strasbourg

The European Commission is expected today to launch an investigation into suspicions that Crédit Lyonnais, the French state-owned bank, was allowed to repur-chase a former subsidiary, Société de Banque Occidentale, on advantageous terms. The probe under state aid

rules, expected to be

approved by commissioners

meeting in Strasbourg today,

is the latest setback in the

FFr45bn (\$8.8bn) restructur-

largest state aid package ever approved by the Com-The Commission is also

expected to start a state aid probe into a FFr2bn recapitalisation of Société Marseillaise de Crédit, the French regional bank, and an in-depth vetting process of Belgian plans for BFr1.5bn (\$48m) aid to steelmaker Forges de Clabecq. Belgium's French-speaking Walin June for the capital injec- mission believes is well. The French authorities tion contained state aid ele-tion, plus a BFr500m debt below the market price. will have one month to ments contravening EU law.

Υ.

indebted Forges de Clabecq. dentale was one of a number of Crédit Lyonnais assets hived off last year into a separate holding company, Consortium des Réalisations. The consortium was charged with preparing the assets for sale to competitors or back to Crédit Lyonnais under

Societé de Banque Occimarket conditions. The French bank repurchased SDBO in February

valued the bank at FFr173m. The Commission also believes competitors were not given adequate opportunities to bid for the business - there were only seven. other bidders, all French and they were not given full information. In particular, officials say, bidders were not told of a FFr274.5m recapitalisation of SDBO by the Consortium de Réalisations in January, before its louis region submitted plans for FFr50m, which the Com-resale to Credit Lyounsis.

ing of the troubled bank, the write-off, for the heavily Independent experts have respond to the Commission's demands for information. They will also have one month to provide information concerning the threestage recapitalisation of Société Marseillaise de Crédit. Commission officials said

a restructuring plan for the Marseilles bank submitted last November appeared incomplete and insufficient to return the bank to profit before 1998. That raised suspicions that the recapitalisa-The French authorities tion contained state aid ele-

NEWS: EUROPE

Sweden stabilises state finances Yeltsin hunts out

By Greg McIvor in Stockholm

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The Swedish government has completed its "seemingly impossible" mission to stabilise the state's finances and its efforts would now shift to fighting the country's serious unemployment problem, it said yesterday.

In a clear message that its fiscal grip would not be loosened, the Social Democratic administration said its goal would be to achieve a budget surplus by 1999 – for the first time since the early 1980s.

In an address to MPs at the official opening of parliament, Prime Minister Goran Persson said the government, two years into its four-year mandate, had reached "half time" in halting Sweden's negative economic

"A crumbling economy has turned into a stable one. Economic decline has turned into growth," he said. "We can now devote our energies and strength to tackling . . unem-

When the SDP took power in 1994 the public sector deficit was about 13 said recently that a permanent budper cent of GDP. However, a get surplus might be necessary if the government's "foremost and SKr126bn (\$18.6bn) four-year consoliSweden were to remain outside a overriding task" and reiterated his per cent of GDP. However, a SKr126bn (\$18.8bn) four-year consoli-



Finance minister Asbrink: Permanent surplus may be needed

flation programme is projected to European single currency. The tar-

zero balance in 1998. Mr Erik Asbrink, finance minister, picked up.

reduce the budget deficit to 3 per cent of GDP next year, and yield a get would also help deflect demands from trade unions for higher public spending once economic growth

by 2000,

Labour market reforms designed to make it easier for companies to employ more workers were announced last week, and these would be bolstered by measures to simplify small business start-ups, Mr Persson said.

in addition, a bill would be presented to parliament this autumn to abolish double taxation on share dividends - an initiative chiefly targeted at small and medium-sized companies. The measures are likely to be outlined in more detail when the government unveils its 1997 bud-

Earlier, Mr Persson said he was keen to introduce a leave-from-work scheme which would encourage job-sharing by allowing workers to receive up to one year in sabbatical leave, backed by generous state ben-

A similar system has proved popular in Denmark but was yesterday rejected by Swedish unions and

determination to reduce headline unemployment from the present rate of more than 8 per cent to 4 per cent to 4 per cent by 2000

By Chrystia Freeland

Russian president Boris Yeltsin yesterday delivered a tough rebuke to his cabinet from his hospital bed for preparing a controversial tax decree. His move has embarrassed the Ministry of Finance and revealed the growing muscle of the Russian business community.

In a directive which brought cheers from Russian entrepreneurs, Mr Yeltsin took his administration to task for "a superficial approach" and "inadequate consideration of the most serious issues in the prepa-ration of an August decree simed at clamping down on tax evasion. He asked for the names of the "guilty" officials to be on his desk within

For all its harsh, Sovietera tone, the presidential reprimand underscored how, after centuries of autocratic rule, the Russian state is gradually making an effort to tailor its laws to the will of its citizens.

Earlier this month, in an inprecedented U-turn, the Kremlin annulled the unpopular tax decree, bowng to warnings that it could trigger a run on the banks. Opponents had said that the vaguely worded legislation might give government the right to levy taxes on all deposits and withdrawals from personal bank

In yesterday's ruling Mr Yeltsin criticised his civil servants for preparing "a decree which provoked a sharply negative reaction

accounts.

Russian President Boris Yeltsin, who has said he will undergo heart surgery later this month, is likely to remain in hospital until the end of this week for preliminary tests, writes Chrystia Freeland.

Mr Yeltsin checked into the Central Clinical Hospital on Friday and had been expected to leave at the end of the weekend. His extended stay has prompted some speculation that the Russian leader could be in poorer physical

condition than his aides have admitted. However, Mr Sergei Yasterzhembsky, the president's spokesman, sought to calm these anxieties yesterday, insisting that the Kremlin chief was well enough to consult Mr Victor Chernomyrdin, his prime minister, for more than an hour. Russian television broadcast a brief, soundless film clip of the meeting, in which Mr Yeltsin looked relatively well and relaxed.

and acute criticism from ists: "It was a victory for the Russian society, financial and banking circles and the mass media".

Business leaders viewed this explicit presidential instruction that Russia's once all-powerful bureaucountry is developing into a responsive democracy.
"If the president is willing

to change his decrees it is a sign that slowly we are becoming a civilised country. Wrong decisions can now be changed - this shows we are becoming more democratic," said Mr Andrei Potseliuiev, a partner at Accounting Services, a Russian accountancy firm.

Just five years after the collapse of the Soviet Union. the tax controversy has also highlighted the mounting political and social influence of two of Russia's newest institutions - an independent media and private busi-

banks and above all for the press. This campaign was organised by the press. We all participated in it."

But the embroglio has shown how, as democratic institutions take root in Ruscracy must bend to public sia, the government may opinion as a sign that the find it difficult to pursue some of its goals. As Mr Yevgeny Yasin, the minister for the economy, argued yesterday, despite the mistakes in its formulation the contested tax decree was an attempt to close one of Russia's most gaping tax loopholes.

To avoid personal income tax, many of the country's highest wage earners are granted an interest-free loan by their employers. The money is then put in a bank account and the employees collect the monthly interest payments - which are not taxable - in lieu of salaries.

Finding ways of clamping down on popular schemes, without provoking the wrath According to Mr Mikhail is likely to be the govern-Berger, one of Russia's most ment's most pressing chalprominent economic journal- lenge this autumn.

UK-linked currency traders cold-call Sweden and Ireland from Denmark

By Clay Harris

A Danish-based group linked to a UK company raided earlier this year by the Serious Fraud Office has targeted investors in Sweden and ireland in cold-calling efforts to sell high-risk currency trading schemes.

Scandex Capital Management has two sales operations, working out of separate premises in Copenhagen, according to a former salesman who left the company recently. Its managing director was also a director of one of three companies whose premises were raided in the UK in July.

The former salesman, who asked not to be identified, said the Scandex operation involved making unsolicited calls to businesses and individuals - at one point, by picking names out of the Cork telephone directory to try to persuade them to sign contracts to undertake

currency investments. Although he had no background in foreign exchange, decision by the UK's Securi-most recently having worked ties and Futures Authority for a beer wholesaler in the UK, he said his cold calls: isation.

When potential customers allowed to trade under asked about Scandax's rat- interim authorisation while ing he was told by manag. Finanstilsynet, the Danish ers to stress the name of Den regulator, considers its appli-Danske Bank, even though Scander's only connection was that it had an account there. "Swedes are very ment Services Directive to ment in the Manchester trusting," he said.

Similar foreign exchange operations have drawn the the former Scandex salesattention of financial regulators across Europe. Moves to Laurion, another company to Danish tax as long as he

activity have sometimes been followed by a shift to new countries or new

Mr Jeremy Bartholomew-White, managing director of Scandex, was a director of Nordex, is the subject of an Euro Currency Corporation, whose premises were raided in July. It had ceased trading in April Mr Ian Farrell, another Euro Currency director, said in Copenhagen yesterday that he was a

shareholder in Scandex, and

Mr Bartholomew-White is

acts as a consultant to it.

also a director of Anderson

Ross, which offers similar

currency investments from

the office and phone num-

bers in London formerly

allowed to trade pending a

on its application for author-

cation. If successful, it would

the European Union's Invest-

The activity described by

exchange, the former salesman

used by Euro Currency. It is Scandez were not discretion-

receive a "passport" under he was recruited in July

operate anywhere in the EU .- Evening News. At an inter-

man is similar to that at (\$3,120) a month, not subject

activity.

yesterday.

said his calls often paid off

Laurion, registered in Hamburg, is linked to Nor-dex Denmark, a company raided by police in Copeninjunction in the Isle of Man relating to Laurion.

Mr Farrell said yesterday: "This company has no connection with Nordex Never has, never will". Regulators in several

With no background in foreign

plaints by investors that some foreign exchange com-panies had "churned" their

accounts - entaring into fre-

quent trades to maximise

commissions. Mr Farrell said

99 per cent of accounts with

ary, so investors retained

control over their trading

had expressed concern

received their first salaries

last week as promised. Mr

Farrell said they were paid

after answering an advertise

view in London, he was told

ne would be paid £2,000

The former salesman said

Staff in the second office

e they had no

looked after his own tax hability.

On arriving in Denmark in mid-August, however, he was told that his DKr18,000 (about \$3,100) salary was subject to withholding tax, initially at 38 per cent and then at 43 per cent.

Mr Farrell confirmed that employees were subject to Danish tax and that any sugwould have been a "miscom-

shared accommodation arranged by Scander had cost him over £800 in the first month. While in Denmark, be had broken even, only because he had demanded and obtained a £30-a-day cash advance, which colleagues had not received. Mr Farrell said Scandex peid for the accomgestion to the contrary modation of some of its

PHILIPPINES SERIES: CORPORATE PROFILES

AYALA **CORPORATION**

Considered the oldest business house in the Philippines having been founded in 1834, Ayala is also one of the country's largest conglomerates with interests in real estate and hotel development, industrial parks and shopping mails, banking and finance, insurance, telecommunication, electronics, information technology, food es in public uti works. A 6th generation member of the Zobel de Ayala family, Jaime Augusto Zobel II (37), is now president. He spoke to Abby Tan in Manila recently.

1. Avals Corporation the parent company and Ayala Land its subsidiary are among the Ptilippines' largest companies. Can you see them keeping their position by the end of this decade?

Jaimo Augusto Zobel de Avala II: Absolutely! I don't see any reason why both can't maintain their leadership positions.

I feel Ayala's growth is very dependent on the growth of the economy. To a certain extent Ayala Corporation is seen as a proxy of the Philippine economy, in that both depend on how the political and economic environ-

ment continue. If the economy grows between five percent to 10 percent per year, there is no doubt we can achieve a rate above and beyond

Ayala Land has a varied portfolio. We had opted to stabilise its growth during very fast growth periods and minimise the downturn in slow periods.

The way we do it is basically through three philosophies: one, we have a very conservative balance sheet even in good times. Although it will not enable us to grow as fast even in good times but it enables us protection in bad times.

Two, we strike a balance between rentals and sales generated. We never quite hit 50:50 balance. But we're cushioned when the downturn occurs as rentals are not as affected as sales. So we've a predicable source of income.

Thirdly. We pinpoint the growth areas. We've recently joined the middle income housing market and will become a very significant player here. We built 2,000 units of middle income houses in 1996 and we hope to reach 10,000 units per year by 1998. industrial parks are also very, very

good growth areas for us. But the problem is getting (agricultural) land and converting them (Into industrial land). 2 How is Ayala Corporation

diversified? JAZA: Ayala Land used to be very dominant component in our port-

You'll notice it at the end of this development. year. It will be very visible in our balance sheet.

I'm diversifying into the banking and financial sectors. The Bank of the Philippine Islands (BPI) is very profitable. Its recent merger with City Trust Bank also a very profitable institution will result in a significant jump in combined net income and will place it at part if not ahead of Ayala Land.

This will put us in the lead in consumer banking. The entry of foreign banks gives a lot of competition to traditional areas like investment banking and corporate lending. But the one area they will have difficulty competing is con-

sumer banking. So you see the two pillars in Ayala Corporation: Ayala Land and BPI in very, very concerted moves to tap the middle market that had traditionally been the markets we had not tackled.

3. How has liberalisation of the Philippine economy benefited Ayala? Has it posed new challenges to a dominant compa-

JAZA: That is one very, very strong hallmark of the Ramos administration. Liberalisation has created a whole new host of opportunities, encouraged foreign investments to the country (that helped real estate() and brought In new technology, particularly in foreign exchange transactions.

On the telecommunications side, it has been phenomenal. Liberalisation brought in very large amounts of investment. Each company like ours Globe Telecoms (a joint venture with Singapore Telecoms) spends that the Philippines is on sushundreds of millions in infrastruc-

Everything that opened up brings in foreign investments and creates competition. That has been a tremendous useful primer to the Let me add one more aspect: pri-

vatisation has lessened the load of the government. All these present a great deal of opportunities to Ayala Corporation. We are very happy to compete in open business. It has enabled us to totio. I've been trying to shift sub- enter new industries like telecoms tly in the last couple of years. And participation in infrastructure



4. Avala Comoration has started glagerty to go regional, but your partnerships abroad are still in real estate - like with Kuo Properties in Singapore, Jardines and Gammons of Hong Kong, PT Menara Duto in Indonesia, is Ayala going to focus only on property devel-

JAZA: No, not really. The ASEAN and APEC phenomenon will happen. There will be lowering of tariffs and integration with local economies. That is a fundamental percept we've accepted. That being the case we've decided to

build a presence in the region. We realise it is difficult to step into another country and offer your services. The strategy we've decided to follow is to invite regional players into the Philippines to share our projects. And they hopefully will invite us

into their areas. That is the opportunity we're trying to develop. We're keen on maintaining solid relationships. Once relationships develop opportunities come in.

5. President Ramos says he's comfortable with ASEA Free Trade Area (AFTA) 2003 and APEC 2020. Do you share the same confidence?

JAZA: We will face a more competitive environment. But that is positive, not a negative threat. I regard Ayala Corporation as a well managed, professional company that thrives on this kind of environment.

6. Looking at the economic indexes now, do they Indicate tained growth?

JAZA: There was reluctance in the past to accept sustainability as part of the equation. I would argue that, yes, macro-economic policies are consistent for a numthe low inflation rate is because all that.

the Control Bank and the Department of Finance follow specific pattern in policies. There is stability in the market. Irrespective of who the leader is in

future, I would say the pattern has been set by the economic managers of this country and it will be very hard to reserve.

Sustainability has been linked to the whole question of Ramos' privatisation and liberalisation. In opening whole segments of the economy to the private sectors.

they have their own steam. He has addressed the power shortage, encouraged others to get into infrastructure like rail, mass transits. The infrastructure programme is exceptional and exciting. Thus growth is going to continue long term.

7. Why is President Ramos able to do what pervious presidents failed to do, which is to liberalise the economy?

JAZA: He was fortunate he inherited the basic foundation of political stability from President Aquino. She started the liberal economic policies. She laid the groundwork for then Secretary Ramos to be the first democratically elected president. Her economic managers were similar in thinking of President Ramos'. He has followed through more aggressively. He picked up the

ball and ran.

8. There is some concern among businessmen of a post-Ramos, in 1998, that is a fear his policies might be reversed. JAZA: I don't share that concern. I take comfort in two things: one that he will not make any moves to change the constitution (to extend his six-year limit), and two, that he will endorse someone close to his thinking. And given his popularity and success I don't see why his candidates should not win. So de facto I remain optiber of years now. For example, mistic. There's a certain logic to



Web site- http://www.ayala.com.ph

CONTRACTS & TENDERS



PRIVATISATION DIVISION

GOVERNMENT OF PAKISTAN

FINANCIAL ADVISOR FOR

GUDDU & LAKHRA POWER PLANTS

Privatisation Division, Government of Pakistan is pursuing the privatisation of stateowned utilities by selling strategic stake with transfer of management control, to well-qualified and reputed international investors. With regard to the power sector, a strategic plan for restructuring and privatisation of Water & Power Development Authority (WAPDA) is being followed under which selected asset blocks (like generation units, distribution networks) are being corporatized, and 26% stake in the corporatized entities, along with transfer of management control, is being offered to strategic investors. Privatisation Division is looking for a Financial Advisor in order to embark upon the

privatisation to two power generation plants, located in the province of Sindh namely Guddu Power Complex (1655 MW) and Lakhra Coal-fired Plant (100 MW) Guddu power Complex consists of steam units, gas combustion turbines, and Combined-cycle units, while Lakhra plant has 2x50 MW fluidized-bed steam units. These two power facilities feed into WAPDA's national grid. WAPDA, being the owner of the two plants has already created a separate organization (called WAPDA Private Power Organization - WPPO) to oversee the privatisation process.

The plant management have been asked to assemble the data and make the necessary documents available, so as to facilitate the work of the Financial Advisor.

Applications are invited from reputed investment banks, or consortiums, for providing the Financial Advisory Services, giving the following information:

Technical and financial information on the firm/consortium.

Description of projects undertaken in the power sector.

3. List of projects on privatisation undertaken by the firm/consortium. Name and curriculum vitae of key staff and their work experience.

List of international affiliates with their confirmation letter. Details of full-time presence in Pakistan, with particulars of professionals

7. Affidavit that the information/documents submitted are accurate. Interested Firms/Consortiums would be pre-qualified on the strength of their past experience of similar assignments and the experience of the relevant staff. Terms of Reference (TOR) for submission of proposals would be made available only to the pre-

Expression of Interest for pre-qualification should reach the following address by close of office hours, latest by Monday, September 30, 1996, at the following address: Mr. Khalid Ahmad Khan, Deputy Secretary (Power), Privatisation Division EAC Building, Constitution Avenue, Islamabad, Pakistan Ph: (92-51) 9215466 Fax: (92-51) 9203076

Banharn pressed harder to quit

India faces delay over sell-off plans

The Indian government's plans to raise Rs50bn (\$1.4bn) from public asset sales this fiscal year are run-ning well behind schedule. with bankers and some officials suggesting that the first of three planned tranches might not now be put to the markets until

Such delay would threaten the government's ability to raise the Rs50bn total before next March, the end of the present fiscal year. The receipts shortfall would endanger its target of cutting the fiscal deficit this year to 5 per cent of GDP from 5.9 per cent last year.

In his July budget, the first for the United Front government, Mr P. Chidamaram, finance minister, said he planned three tranches of sales, in September, November and January February. Officials say they expect the first two sales to be big, single issues from two large state corporations. with the third being contingent on recommendations from a newly constituted Distrivestment Commission.

However, the first planned sale, of equity in VSNL, the state-owned international

may be delayed, citing the equity markets and the proximity of a \$10bn issue by Deutsche Telekom, due to hit international markets in the next few weeks.

However, bankers suggest the government may also be nervous about proceeding with such a high-profile telecoms sale amid the present controversy surrounding Mr Sukh Ram, former Congress party telecoms minister, arrested in Delhi on Monday in connection with corruption investigations.

Should a VSNL issue be postponed, bankers say the only other state corporation which could readily be prepared for a divestment withing the government's envisaged timetable would be Indian Oil Corporation, the state refining company.

However, bankers in Bombay said gaining approvals, selection of issue managers and co-ordinators and preparation of the issue for both domestic and international markets would take until the year's end at the earliest Indian officials separately conceded this week that they did not expect any such issue until the "first quarter" of next year.

who is under mounting pressure from opponents and allies to resign, faces two days of political attacks debating a no-confidence have indicated that the issue

motion today.

No prime minister has ever lost a censure vote; in Thai politics they are routine. Yet with allegations of corruption and political mismanagement against Mr Banharn's six-party coalition growing, the censure debate promises to be a politically charged affair. The outcome is far from clear.

A military takeover, the usual outlet for relieving political pressure, is not a realistic or immediate option: potential coup-makers are still smarting from the 1992 massacre of scores of demonstrators.

The prime minister's pres ent woes stem largely from his own unpopularity among Bangkok's economic élite, who blame him for mismanaging a slowing economy after many years of double-digit growth.

The current account deficit is rising, the 14-month-old government says growth this year is likely to be less than 7 per cent (below its already downward-revised target of 7.8 per cent), the stock market is languishing, and observers doubt the durability of Thailand's export-

"Banharn has to go. The pressure in the system is

But outcome of a vote against Thai PM remains in doubt, writes Ted Bardacke hailand's embattled Thailand: months of turmoil prime minister. Mr

Bangkok SET index Banharn Silpa-archa, when parliament begins

> getting too great; there could be an explosion," says Mr Suthichai Yoon, a political analyst. "The question is how to get rid of him using democratic mechanisms.

Mr Banharn's coalition partners could, for instance, vote against him when the motion is put up for a vote on either Friday or Saturday. But if he believes the vote will go against him, he is likely to dissolve parliament and call a snap election. That outcome is still slim though by no means out of the reckoning.

An election would be an

uninviting prospect for government MPs still trying to exploit their position in an environment where routinely, the use of office is minister, or Mr Chatichai

sought for personal gain.
The government, for instance, has delayed the award of banking licences after it acknowledged that bribes may have been paid

"No one except the [leading opposition party] Democrats wants an election. says Mr Amnuay Viravan, deputy prime minister. "Everyone else thinks they have a chance for power with this parliament in place."

Alternatively, Mr Banharn could resign before or after the censure vote, paving the way for the formation of a new coalition led by either Mr Amnuay, General Chavalit Yongchaiyudh, defence

Choonhavan, the former prime minister ousted in a 1991 coup. A former top adviser to Mr Banharn says a resignation in these circumstances is

unlikely because it would require the prime minister to make a self-sacrificing decision that would involve "He honestly thinks he has done nothing wrong, or

at least nothing worse than anyone else," says a former aide, while Mr Banharn himself told the Bangkok Post yesterday that just because "Twe said all along that I am not tied to the posi-. . does not mean I will back down easily."

Mr Banharn believes he will win the censure vote

and be in a position to form an "all-star team" of competent technocrats to take over management of the economy. A team of technocrats would, he believes, restore the political credibility that his government lacks. The idea of a technocratic government is gaining favour in some political circles and the prime minister says he has sked Mr Amnuay to assemble such a team.

But potential members of an all-star technocratic administration are unlikely to want to join a Banharn-led government. Mr Amnuay says gathering such a team would be difficult.

"I've been all over the country looking for these people [to join the govern-ment]," he says. "I know they are there but I can't find them."

If Mr Banharn survives, activist groups say they will take to the streets to demand the prime minister's resignation. Already yester-day, a small group of businessmen drove their Mer-cedes cars slowly to Government House and unfurled a banner calling on

Mr Banharn to step down. Such groups could be joined by rightwing elements intent on stirring up trouble and creating conditions for some form of outside intervention.

"If that happens, then all bets are off," says a western diplomat. "To find demonstrators in the streets changes the political dynamDhaka rings poor's number

rameen Bank, which pioneered the busi-ness of lending small sums to the rural poor of Bangladesh, has been awarded one of three new cellphone licences in a government move to boost competition in the sector. And no one will be more pleased than the poor, mostly women, to whom Mr Mohammad Yunus, Grameen's founder, has given thousands of unsecured loans of as little as \$100.

With a loan recovery rate of nearly 98 per cent, Mr Yunus's clients are both creditworthy and loyal and he is confident they will take to mobile phones as they have to his "micro-lending".

The villages will become like mobile telephone booths," he said, after his consortium, which includes partners from Norway, US and Japan, was awarded a mobile cellular phone operators' licences last month.

Grameen's aim is to make mobile phones a tool for rural development in a country where more than 80 per cent of the country's 120m population live in villages.

Bangladesh has two landlines per 1,000 inhabitants one of the lowest per capita levels in south Asia. This compares with 16 in Pakistan, 11 in India and 10 in Sri Lanks. In Thailand the ratio is about 50.

The cost of installing a digital land-line in Dhaka, the capital, is about \$500 prohibitive in a country with a per capita income of \$220. Typically, the average wait for a phone line is 10 to 12

years, says the World Bank. The government hopes the awards of cellphone licences will increase the number of mobile phones by nearly five-fold over the next year and a half. The decision to open the market will also put an end to the cellularphone monopoly enjoyed by Pacific Bangladesh Telecom, a 100 per cent Bangladeshiowned company. It was awarded the licence three years ago but has managed to attract only 4,000 subscribers, a performance that

provoked the opening-up. nity, the government decision, announced within 60 days of its taking office, is a decisive step. "This is a strong signal to business as well as to foreign investors, that the new government is committed to easing the way for renewed growth and private-sector investment," said Mr Salman Rahman, president of the Federation of Bangladesh Chambers of

Commerce.
The Grameen Phone consortium includes Telenor, the Norwegian state-owned telecoms company, trading group Marubeni of Japan, and Gonofone Development Corporation, a New Yorkbased company set up by expatriate Bangladeshis. The consortium will invest an initial \$25m to install 50-60 base stations (towers to relay signals from one to another) covering an area of 55,000 sq km including Dhaka, and, in the south. Chittagong, Comila and Khulna, and a wide swathe of rural area. Grameen believes it will cover the

whole country in six years. Grameen's market research reveals that total demand for mobile phones could double to about 300,000 over the next 10 years. It expects to attract about 20,000 subscribers in the first 18 months.

The other two licence winners are TM International (Bangladesh), a consortium of TM International Malaysia and Bangladesh's A.K. Khan group; and Seba Tele-com, which is owned by the Bangladeshi company Integrated Services and Malay-sia's Technology Resources

TM International proposes to invest about \$50m over the next 18 months to establish 34,000 lines, according to Zahiruddin Khan, chairman of the group and a former industry minister. Seba says it will invest \$75m, establishing some 90 base stations and forecasts 10,000 subscrib-

ers by early 1998. The cost of owning a phone and making a call are now likely to be significantly reduced. Currently the cost of buying a mobile telephone and subscription is about Tk45,000 (\$1,000) which is beyond the reach of most businessmen, let alone the rural poor.

Kasra Naji

US offers to pay its arrears to ADB soft loan fund

By James Kynge in Kuala Lumpur

The US has offered to pay its arrears to the Asian Development Bank soft loan fund within four years, opening the way for a solution to a long-standing impasse which has threatened to under-

mine the fund's operations. A bank official said yesterday that Washington offered to pay off its \$234m arrears to the Asian Development Fund (ADF) soft losn window from 1997 during the fund's next four-year term, which

starts in 1997. Several members of the multilateral bank indicated an acceptance of the US proposal at a meeting in Kuala Lumpur, the Malaysian capital yesterday, but some said they were against it, a

source said. The apparent settlement comes after a period of intense wrangling over US arrears for a replenishment due in 1992. This was accompanied by US pressure on reluctant "Tiger" economies to pay more into the facility, which cast doubts over whether the ADF soft loan operations to continue in

The ADF is a cornerstone of the bank's development operations, providing poorer Asian countries with loans of 40-year maturities with a 1 per cent repayment per year after a 10-year grace period. Members of the Manila-based bank have been concerned that a US failure to clear its arrears before the start of the seventh ADF in 1997 might lead to disenchantment and reduced pledges

would be replenished in time for from other, mainly Asian, donors. It now remains for a meeting of ADF members scheduled to take place in Copenhagen, Denmark, in October to hammer out a final response to the US offer. If that meeting fails to do so, then another meeting may have to be arranged before the end of the year, said the official. "But we want to wrap it up by the end of the year," he added.

seems likely that the bank will have to settle for a decline in donations for the seventh ADF the US in the bank to reflect its

period, partly because the US is offering only \$340m - half the amount it promised the sixth ADF which has run since 1992. The source said that some members are keen on penalising Washington for the reduction in its donation, perhaps by limiting the participation by its companies in projects funded by ADF lending.

"But this kind of penalty is not a preferred option," said the official. "However, some people do want to see a declining role for

declining donations," he added. ADB officials predicted that the ADF may manage to raise between \$3bm to \$3.6bm in fresh funds for the seventh ADF, down from the \$4.2hn pledged for the current term. Japan, the largest donor, has offered to supply 35 per cent of total fresh funds for the

There were signs at the Kuala Lumpur meeting of progress in eliciting larger donations from the Asian "Tiger" economies of Singapore, Taiwan and South Korea.



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ASIA-PACIFIC NEWS DIGEST

Japan's poison scare hit growth

The panic generated by Japan's food-poisoning epidemic was strong enough to kill off a short-lived recovery in consumer spending over the summer, according to official data released yesterday. Average household spending fell by 4.4 per cent in the year to July, after growing by 3.4 per cent in June, the first rise in three months. The setback comes from a decline in purchases of raw and convenience food, after the outbreak caused by the bacterium 0-157 E coli, in which 10 died.

In an illustration of just how serious was the impact, the July decline in spending exceeded the 4.2 per cent fall in consumption that took place in January 1995, the month of the Kobe earthquake, which temporarily paralysed Japan's heavy industrial heartland and killed more than 6,000 people.

However, industrial output rose by 4.9 per cent from June to July, significantly higher than the preliminary estimate of 4.1 per cent issued by the Ministry of International Trade and Industry late last month.

Industrial deliveries only increased by 4.1 per cent in July - albeit up from a preliminary 8.3 per cent. As a result, stocks of unsold goods and materials fell at a very slow 1.2 per cent in the same month. William Dawkins, Tokyo

Nuclear shipment disclosed

A shipment of 600 tons of uranium hexafluoride arrived in Japan's northern port of Mutsuogawara yesterday. The shipment was the first since the Japanese government decided to reveal more about its nuclear fuel shipments. The Science and Technology Agency last Friday released information of the uranium's arrival date and the name of the ship. It was the first time uranium, destined for a nuclear complex in Rokkasho in Aomori Prefecture, has been transported directly to the port. In the past a state owned nuclear fuel company secretly transported uranium by land from Tokyo. Emilio Terazono in Tokyo

Vietnam tax bill for director

Ho Chi Minh City tax authorities have given Mr Nguyen Trung Truc, director of the Vietnamese subsidiary of Hong Kong's Peregrine Investments Holdings, a \$100,000 tax bill, the Tuoi Tre (Youth) newspaper reported. The municipal tax office assessed the taxes based on a contract between Peregrine and Mr Truc and his wife, Ms Deidre Low, the report said. Mr Truc runs Peregrine Capital Vietnam. He has been under investigation for alleged tax evasion since May. In July, authorities announced they were pressing charges against him and his wife in connection with car imports. He has denied any wrongdoing. Until the investigation, Mr Truc, sn overseas Vietnamese with an Australian passport, had been regarded as one of the most successful investors in Vietnam.

Sri Lanka export growth dips

Sri Lanka's export growth declined in the first half of the year and analysts say the trend will continue to hit the war-battered economy in the second half. Exports in the six months to June were up by 9.47 per cent compared to a growth rate of 12.16 per cent in the corresponding period last year. Imports dropped marginally by 1.6 per cent this year. The Chamber of Commerce, which represents the private sector, said the full impact of daily power cuts since March - which had reduced production by 30-50 per cent – and labour unrest will be felt only in the second half of the year. High interest rates, rising wages, labour unrest and the withdrawal of state subsidies had added to the problems for exporters. Amai Jayasinghe, Colombo



Sharp fall in Korean currency

By John Burton in Secui

South Korea's economic problems have triggered a sharp depreciation of the Korean won against the US dollar, which may benefit exports but could also add to inflationary pressure.

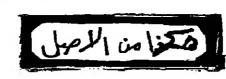
The Korean currency dropped to a record low of 830 to the dollar on Monday before the central bank intervened to stabilise the exchange rate at 828.80. where it stood yesterday.

The central bank attributed the sharp fall in the won rate to growing demand for US dollars as Korea's current account deficit wid-ens to a record level this year of at least \$15bn. Demand for the dollar is

increasing to meet scheduled import settlements and to cover short positions. The won has fallen by 6.4 per cent against the dollar since the beginning of 1996 and has reached its lowest point since a restricted floating exchange rate was introduced in March 1990.

Economists said the government was letting the won drift downward to improve price competitiveness of Korean exports, which have lost market share to Japanese products as the yen weakened against the US dollar over the past year.

But there are worries that a weak exchange rate could increase inflation, which is threatening to breach the government target of 4.5 per cent this year, by making dollar-denominated raw material imports, such as oll, more expensive. A weaker won/dollar exchange rate also threatens to depress net earnings of Korean companies for 1996.



FINANCIAL TIMES WEDNESDAY SEPTEMBER 18 1996

NEWS: INTERNATIONAL

■ Victorious KDP leader looks to reduce reliance on Baghdad ■ US fears for its Kurdish agents

Saddam's Kurdish ally to meet US official

By Judy Dempsey

pension funds.

Israel's finance ministry

yesterday unveiled a sweeping package of measures simed at opening

up capital markets, boosting

domestic savings and

reforming state and private

If agreed by the

government, which has put

economic liberalisation high

on its domestic agenda, and

pushed through the Knesset.

the measures could be the

first step towards restoring

public confidence in the

In July, small investors

redeemed over US\$1bn from

provident, or savings funds

when bond prices fell and

real interest rates remained

They could also mark the

first move towards greater

scrutiny and accountability

in the management of

crucial impact on the capital

markets and long-term

savings," said Mr Gad

comments and leaf entre with W

pension and other funds.

25 per cent, and later, to 20

A second plank of the

reforms would entail the introduction of tax

exemptions for interest on

medium-term savings would

carry an interest rate of 5-10

The idea is to pre-empt a

repeat of the massive redemption of the provident

funds over the past two

focused on the retirement

savings. There will be no

more tax incentives for

provident funds that are not

"The tax incentives will be

kept an eye on his own has taken into consideration criticism of his new friend-

The KDP maintains that the PUK is backed by Iran. It is also the excuse used by Mr Saddam in intervening to back the KDP in the inter-

Analysts said that Mr Bar-

Iraq. But a US official made Mr Barzani and US officials should not be seen as US recognition of KDP control over the Kurdish north. Mr Ibrahim Karawan,

senior fellow for Middle East tional Institute for Strategic

hedging his bets. A meeting with the US, he said, could be a warning to Saddam not to overplay his hand. US President Bill Clinton

yesterday denied reports that be was reconsidering sending US troops to Kuwait as part of the military build-up in the Gulf to maintain pressure on Iraq. Mr Clinton said he signed deployment orders on Monday night but he did not specify when US forces would arrive.

famine in Kurd enclave By John Barham in

Sulaimaniya, northern Iraq

UN fears

The United Nations World Food Programme has put out an "urgent appeal" for international food donations to avert a potential humanitarian disaster in Kurdish northern fraq this winter.

UN officials yesterday said this year's harvests were poor, causing shortages and raising prices. The UN says it needs donations to provide for about 600,000 people, about one-sixth of the Kurdsh enclave's population.

UN economists say wheat output in the enclave, traditionally Iraq's breadbasket. fell 40 per cent this year to 240,000 tonnes, leaving a shortfall of 160,000 tonnes.

Ironically, farmers cut production because they expec-ted food prices to fall once Iraq's President Saddam Hussein reached agreement with the UN allowing Baghdad to import food and humanitarian supplies by exporting \$2bn worth of oil

every six months. Bad weather also damaged crops and fighting between Kurdish groups interfered with harvests. The UN shelved its oil-for-food agreement with Baghdad, after Mr Saddam sent troops to help the Kurdistan Democratic Party (KDP) defeat the rival Patriotic Union and take control of the region.

The UN warned that food shortages could further aggravate already serious malnutrition.

The exodus of international aid organisations is further undermining relief efforts. Many organisations evacuated their staff, fearing for their safety after Iraqi government troops entered the region. Aid agencies are virtually the only providers

of basic services.

Although Iraqi troops do seem to have left, the KDP leadership is struggling to convince agencies to return. But their local staff remain terrified of reprisals by government agents.

By Roula Khalaf in London

Mr Massoud Barzani, the Mr Barzani, and that the month executed 100 mem-Kurdish leader allied with meeting may be held as Iraqi President Saddam Hus-

The US has confirmed that According to western diplo-it is seeking a meeting with mats, kaqi forces earlier this five-month blockade, declar-if it is seeking a meeting with mats, kaqi forces earlier this five-month blockade, declar-ing it is seeking a meeting with mats, kaqi forces earlier this

uated from northern Iraq. with Mr Barzani's Kurdistan operate freely as a political

investor confidence

"It is time there was more

transparency in the way the

markets are operated and

how small investors are

Brodet, director general of

the finance ministry and

chairman of the special

'It is time there

transparency in

committee for capital

markets, recommended

interests on bonds, dividends

These would include

significant tax cuts on most

was more

the way the

markets are

operated'

and savings.

Haker, head of the cent. The tax on foreign

Batucha Securities and gradually from 35 per cent to

As a first step, Mr David 10-year or longer-term stodet, director general of savings while short-term and

Brodet.

had President Saddam Hussein, is to meet a senior US official, possibly today.

Mr Barzani, who won virtual control of northern iraq last week with backing from Iraqi forces, will be in Turkish officials and will also meet Mr Robert Pelletreau, the US assistant secretary of state for Near Eastern affairs.

Package of measures unveiled to open capital

Israel acts to restore in the said as being of the work for the security of Kurds who work for US agencies in northern Iraq.

Hundreds of Kurds employed by US military and aid agencies—some of them involved in intelligence work for the US—have been evacuated from northern Iraq.

Package of measures unveiled to open capital

Israel acts to restore Kurdistan, Mr Barzani has among his supporters. He attempted to distance himisued his own amnesty to self from the traqi regime. Mr Saddam has tried to of Kurdistan and said he consolidate the new alliance would allow the PUK to

ing an amnesty in northern a one-off deal and there is no zani was exploring ways to bers of the opposition Iraqi Iraq and offering to maintain agreement with the Iraqi reduce his reliance on Bagh-National Congress in the autonomy for the Kurdish government," said a KDP dad and was looking for US north. But Mr Barzani has official yesterday. "We have acknowledgement of his new kept an eye on his own some hard questions to ask predominance in northern Kurdish constituency and the US: we would like to know what the US policy is clear that a meeting between and the position on foreign sweeping through the rest of ship with Saddam from interference in the region, especially Iranian."

Premier Benjamin Netanyahu (right) discusses the Syrian troop build-up with his military adviser Gen Zeev Livnay

Netanyahu firm on Syria troops

By Judy Dempsey

for retirement," said Mr Israel will not be put under pressure by Syria's decision A third phase of the to redeploy 12,000 troops in reform, and probably the Lebanon near the Golan rity of the country and its controversial Heights, Mr Benjamin politically, would entail Netanyahu, Israel's prime minister, said yesterday.

reducing government subsidies to pension funds. "What Syria is trying to reducing the tax rate on Such subsidies amount to a do is to put psychological pressure on Israel and on its "The reforms could have a interest from tradeable fixed return - often 2% times bonds from 35 per cent to 10 the pension contribution. new government," Mr Netanyahu declared after ing a wave of bombings in per cent, and on dividends. These have provided fund from 25 per cent to 15 per managers with little addressing the foreign Israel earlier this year. affairs and defence commitincentive to enter the tee of the Knesset (parlia- envoy, arrived in Cairo yes-

Line many rate of Lord Andrews

Israel was "taking seriously all the signs on the ground. I am convinced we are taking all the necessary measures to defend the secu-

citizens," he added. His remarks coincided with moves by Washington to restart the peace negotia-tions which had been broken off by the former Labour government follow-Mr David Ross, a US

Egypt. He will later travel to Gaza and then to Israel. Mr Netanyahu, whose Likud government was elected last May, met Mr Yassir Arafat, president of

the Palestinian authority,

President Hospi Mubarak of

earlier this month, the first meeting since the elections. However, Mr Netanyahu has been reluctant to give any timetable for resumption of the peace talks, or more specifically, has not committed his government

tarday, where he is expected to withdrawing Israel troops to hold talks today with from Hebron as agreed in signed by the previous government and the Palestin-This issue, as well as the

future of the peace negotiations, is likely to be high on the agenda when Mr Netanyahu makes his first official trip to Europe next week. He is due to hold separate talks with Chancellor Helmut Kohl of Germany; Mr

John Major, the UK prime

minister, and France's Presi-

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Florida 'triumph' for tobacco groups TV debates to

By Richard Tomkins In New York

The US tobacco industry was yesterday claiming a court trlumph after a Florida circuit judge dealt a blow to the state's attempts to sue the industry for the recovery of healthcare costs.

The judge dismissed 15 of Florida's 18 claims against US cigarette makers and ruled that no claims could be

it easier to sue the industry. Significantly, the judge also ordered the state to produce the names and addresses of every individual involved in the remaining claims within 30 days, opening the way for the industry

RJ Reynolds, the tobacco subsidiary of RJR Nabisco,

each smoker's case.

to challenge the validity of

before July 1994, when Flo-rida passed a statute making lawsuit, no matter how polit-up at 462½p in London on ically unpopular their case

under the law." Tobacco stocks rose sharply in response to the ruling, which came late on Monday evening. At lunchtime yesterday Philip Morris's shares were up \$1% at \$93% and RJR Nabisco's were up \$1/4 at \$27. Earlier, shares in Britain's

the news that the judge had may be, is entitled to fair dismissed the UK holding and equitable treatment company from the claims. But BAT's US arm, Brown & Williamson Tobacco, will remain a defendant in the

> states suing the tobacco industry for the cost of treating smoking-related illness under the Medicaid public

likely to succeed in its suit as it has passed legislation that strips away many of the industry's traditional defences; for example, the argument that smokers knew the risks they were taking but chose to smoke

In June the Florida supreme court issued a ruling on the lawsuit but left it to the lower court to deter-

Street yesterday was that

Ford could live with its new

substantially higher costs

things look different for GM.

The company, with 240,000

UAW workers, is still only

half way through the over-

haul under way since the

early part of the decade: its

labour costs remain higher

than its main competitors

and it makes far more of its

parts in-house than Ford or

reduce its workforce by as

many as 70,000 to make itself

fully competitive, says Mr

Dave Cole at the University

of Michigan. As it happens,

the opportunity to do so is

about to arrive: the company

is in the process of introduc-

ing a new range of models

which would allow it to

build vehicles with less

labour input, says Mr David

Healey, an analyst at Burn-

The company still needs to

agreement without facing

The state is seen as most interpretation by the circuit court turned out to be more favourable to the tobacco industry than expected.

The case will now proceed towards a trial due to begin on August 4 next year. In the meantime the tobacco companies seem likely to examine individual smok cases and seek to show that illnesses were wrongly attributed to smoking or that money was wasted on inap-

Chrysler

Canadian

ultimatum

subsidiary was locked in

labour contract talks yester-

day with the Canadian Auto Workers union, which had

threatened to strike if a deal

was not reached before

expiry of an existing con-

tract at midnight last night. Yesterday's talks centred on wages and benefits. The

CAW earlier in the day

claimed a victory on the

contentious issue of con-

tracting work to outside.

usually non-unionised, parts

According to the union,

Chrysler agreed that any jobs lost to "outsourcing" at

its Canadian plants would

be replaced by new jobs,

provided the company was

Chrysler has a unionised

workforce of about 13,000 in

Canada. A minivan plant in

Windsor, Ontario, and a car

north-west of Toronto, con-

tribute about a third of the

company's North American

on outsourcing with Chrys-

ler will set a pattern for

forthcoming contract talks

with General Motors and

Ford, which are expected to

make contracting-out a cor-

nerstone of their demands

from the union.

The CAW hopes any deal

sembly line in Bramales,

making a profit.

Canadian

faces

Chrysler's

exclude Perot

By Nancy Dunne In Washington

The bipartisan Commission on Presidential Debates yesterday recommended that Mr Ross Perot, the Texas billionaire presidential candidate, not be included in the television debates between President Bill Clinton and former Senator Bob Dole, his Republican challenger.
The recommendation is

considered a victory for Mr Dole who, trailing the president by 15-20 points in most polls, sorely needs good news. The debates are the last key events before the November elections. Republicans feared Mr Perot's participation would give him a larger share of the anti-Clin-

A spokesman for Mr Perot's Reform party called his exclusion a "travesty" and warned that Mr Perot might challenge the commission's decision in court.

The commission's stan-

dards for third party particlpation require that the candidate has a "reasonable" chance of winning. Support for Mr Perot, who won 19 per cent of the vote in 1991, has been running at 8 per cent or less in most polls.

The campaigns can decida to ignore the commission's recommendations. In talks between Republican and Democratic representatives. the Clinton camp has been urging Mr Perot's participation in at least the first debate. The Dole camp has

refused. • US industrial autput increased 0.5 per cent in August after a slim 0.1 per cent gain in July, according to figures released yesterday by the Federal Reserve, Rep. ter reports from Washing-Businesses were reported to be operating at 83.5 per cent of their capacity last month, up from 83.3 per cent in July. The figures were in line with expecta-

Calpers neutral on fraud plan

By Christopher Parkes

Calpers, the powerful Californian state employees' pension fund, has elected to stay out of the debate over Proposition 211, a popular initiative designed to make it easier for investors to sue for securities fraud.

The fund's investment committee voted narrowly on Monday to take a neutral stance, after deciding there was "no overwhelming evidence" to sway its 13 members to oppose the law.

according to a fund official. 7-to-6 decision The reflected divisions over the issue which has pitted businesses, senior politicians, stock exchanges and accountancy firms against the lawyers and consumer groups which back 211.

The committee had been

amount of lobbying," the official said, and noted that a preliminary vote on the issue had resulted in a 7-to-6 majority in favour of opposing the initiative. The posi-tion was reversed following discussion and a formal vote.

Opponents say the proposal, which will pass into state law if approved by voters in November, will make California a "magnet" for frivolous lawsuits against companies throughout the US and beyond.

Calpers' decision was in keeping with its apolitical status as a state agency, an official said. According to a discussion document distributed to committee members. 211 offered no significant henefits to Calpers and presented risks to the fund's investment strategy. Editorial Comment, Page 15

Ford union deal challenges GM

UAW accord breaks US motor industry mould, writes Richard Waters

for a renewed showdown in the US between General Motors and the United Auto Workers union after a three-year labour agreement reached between Ford and the union late on Monday.

To judge by the terms of under pressure to make substantial concessions to its 220,000 UAW workers or face another crippling strike like the 17-day stoppage at two of its parts plants in Dayton, Ohio earlier this year. Once again, it seems, a dispute involving the country's biggest manufacturer could bring the politically sensitive issue of job security under the spotlight.

Ford's deal with the union. concluded nearly 48 hours after the previous contract had expired, was meant to set a pattern for the other US car and light truck makers. That, at least, has been the tradition in the US motor industry. But the divergent fortunes of the Big Three - GM, Ford and Chrysler - will make that difficult this year.

Ford's agreement with the UAW is subject to a vote of members and details have yet to be released officially. At its heart, though, are two clauses which break the mould of previous labour contracts in the US motor

One is a job guarantee under which the company has said it will keep 95 per

cent of its existing 105,000 UAW jobs open. New work-ers will be hired when existing ones retire.

"The principle involved is quite different from anything we have seen in a major labour agreement in the US," says Mr Dale Brickner, a professor at Michigan that agreement, GM will be State University. Other unions have tried to win

such guarantees, but failed. The practical impact of Ford's guarantee is difficult to discern. If, to calculate the 95 per cent, it excludes new workers who are in the "grow-in" period before assuming full UAW rates. then the company would in effect be able to cut its workforce by up to 10,000 people, says Mr Brickner. Also, the company is believed to have secured an over-ride clause allowing it to break the nomic or financial circum-

The second ground-breaking clause will allow the company to pay a lower rate to workers in parts plants than to those on vehicle assembly lines, creating a new two-tier wase structure. The immediate impact is mitigated by the fact that it will apply only to new parts workers, not existing ones. And Ford is believed to have agreed to a formula that would make wages of the new workers comparable with the highest paying jobs in independent parts suppli-



Alex Trotman, Ford chairman, at a news conference called to announce the United Auto Workers' deal

sourcing" of parts jobs has become a sensitive issue. this new two-tier wage structure represents something of a breakthrough. It seems to allow the company to reduce its costs in future while enabling the union to pre-vent the steady seep of jobs to non-unionised suppliers. was this issue that prompted the strike earlier this year which brought the company's assembly lines to

Not surprisingly, the parts companies that have benefited from outsourcing are jobs were not kept open. In an industry where "out- cautious about the implica-

THE PRINCIPLE

that takes

partners to the

top

the air. Mr Woody Morcott, chairman of parts company Dana, said: "Most suppliers would see more downside in this, rather than upside." He added, though: "I'm not sure this will be a watershed", since the car makers' previous agreements with the union already required them to maintain the pay of laidoff workers, even if their While the view on Wall

tions of the agreement Speaking on Monday, before the Ford deal was reached but when talk of job

guarantees was already in ing business. And the guarantee clause would put a block on its efforts to "down-

ham Securities. The two-tier wage structure for parts plants would do GM little immediate good, given that it is in the proces of scaling back - rather than expanding - its parts-mak-

It was not surprising, therefore, that industry analysts chose to see Ford's agreement with the UAW in the light of its competition with GM. As Mr Healey summed it up: They have screwed GM more than they have screwed the union."

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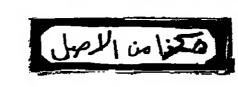
of our value system. Here the natural selftradition of the cooperative system link-

interest of both partners forms the basising equal business partners. And it has

a great future. Because it exemplifies mum profit at minimum risk. What's called the central idea of partnership: mutual

for is optimal counselling service leading cooperation leads to mutual success.

DG BANK C





strengthen trade ties

and Laura Tyson in Taipei

China and Japan yesterday demonstrated their refusal to allow a territorial spat over disputed islands in the East China Sea to disturb the task of building trade and business relations.

more than 100 senior executives arrived in Beijing yes- Taipel. terday to meet premier Li Peng and other senior officials to discuss trade and foreign investment policies. That the annual business

mission from Tokyo to Beijing is going ahead as planned is a reflection of the growing importance of eco-nomic relations. Japan has traditionally been China's largest trade partner and China became Japan's second largest trading partner for the first time last year.

Then, exports from Japan to China rose by 17 per cent to \$21.9bn, while Chinese exports to Japan rose by 30 per cent to \$35.9bn, according to the Japanese external trade organisation. China is the largest of the few countries with which Japan runs a trade deficit, nearly \$14bn last year, a consequence of its reliance on cheap Chinese domestic electrical goods, textiles, food and raw materials.

The top issue on the mission's agenda is the Chinese government's plans for a high speed train, to link Beijing and Shanghai at an expected cost of \$8bn. Japan is keen that its Shinkansen bullet train system should be chosen rather than French or German alternatives. Japanese involvement in the modernisation of Chinese agriculture is also expected to be discussed.

The territorial dispute is over the Diaoya islands. Beijing recently issued a stiff warning after an ultra-nationalist youth group restored a lighthouse on one of the islands.

Taiwan is also involved. It : Japan's favour.

liberalisation but said there was "some way to go" before conditions for joining the World Trade A Japanese delegation of Organisation were met, writes Laura Tyson in

Mr Summers said more work was needed in several areas including reform of the state alcohol and tobacco monopoly, greater access for foreign vehicles, national treatment for services including legal and financial services and improved access for

challenges Japan's claim to sovereignty over the islands and has also protested about the restoration of the lighthouse. The provincial assem-bly based in Taiwan's can-tral city of Taichung yesterday voted to impose a ban on Japanese goods and services because of the dis-

only covers contracts issued by the provincial government, which administers three quarters of the island's territory excluding Taipei and Kaohsiung cities. While island-wide procurement of goods and services from Japan is significant, the largest projects are run by the central government so the impact of the sanctions will probably be limited. Major infrastructure projects such as a high-speed railway between Tainet and Kachsiung, road construction and airport expansion projects

The issue of trade with Japan is politically sensitive in Taiwan because of Japan's persistently high trade surplus. Bilateral trade amounted to \$43.5bn in 1995, with a \$17.1bn balance in

China, Japan Revival of Japanese demand

Number of robots per 10,000 people in industry

Robots: Japan is way ahead

Worldwide sales industrial robots surged by more than 25 per cent last year and are predicted to grow by a further 20 per cent in 1996, according to the latest annual survey compiled by the United Nations Economic Commission for Europe and the Stockholmbased International Federation of Robotics.

by 15 per cent a year for the rest of the decade, bringing the world stock of industrial robots to more than 1m by the end of 1999. This represents an increase of more than half from December last year when the stock stood at 650,000

accounts for almost 60 per cent of the world's robot stock, will still have roughly half by the turn of the cen-

Of the remainder, just under 100,000 will be in the ted to top 91,000, breaking US. 76,000 in Germany, the previous record of 81,000 US, 76,000 in Germany, the prev 28,000 in Italy, 17,000 in in 1990.

EU employers oppose calls to

involve WTO in labour issues

France and 11.000 in Britain. The latest boom owes Robot sales last year much to reviving Japanese jumped by 26 per cent to demand after a lean patch. 75,500 units worth some About 36,500 new robots \$5.7hn as the market continwere installed in Japan last ued its recovery from the year, a 28 per cent increase over 1994. Some two-thirds of Sales this year are expecthese represented replacement investment.

than 40 per cent in Germany and 30 per cent in Italy. Sales to South Korea, now the world's fourth largest robot market, also jumped

by almost 40 per cent. In most robot-using countries the main use for robots is welding, especially in the car industry, though in Japan and Singapore the predominant use is for assembly work in the electronics industry.

Japan nevertheless remains the biggest user of robots for making cars. For every 10,000 people employed in the motor vehicle industry last year, there were more than 800 robots in Japan, about 400 in Italy, 300 in the US, 250 in Sweden, 230 in Germany and just under 200 in France and Britain.

Japan also tops the league table for the whole of manufacturing industry, with about 250 robots per 10,000

World industrial robots -Statistics 1983-94 and forecasts to 1998 (Sales no. GV.E.96.0.26). UN sales sec-Elsewhere, demand rose tion, Palais des Nation by a third in the US, more 1211 Geneva 10, \$120. tion, Palais des Nations. CH-

WORLD TRADE NEWS DIGEST

Cycle maker's new horizons

Hero Cycles, India's biggest bicycle maker and one of the world's largest, is launching an assault on world markets with plans to build assembly plants in Europe, Africa and South Asia - aiming to capitalise on competitively priced indian-made components.

Hero, which has 43 per cent of India's 10m a year bicycle market, plans a \$5m plant in Kenya to make 300,000 cycles a year. It hopes to follow with a plant in Europe, most likely the UK, within six months. The group is also looking to enter South Asian markets with a third

Mr Robit Chanana, group treasurer, said the aim of Hero's first foreign foray was to keep the growth of component exports at 20-25 per cent a year. Component exports to Africa, Europe and the US last year comprised 10 per cent of the cycle maker's Rs5.3bn (\$148m) turnover on which it reported profits of Rs160m. Mr Chanana said the proposed UK plant would entail investment of around 55m with envisaged output of 300,000-500,000 cycles. The plant would buy up to half its components from India, which would be priced competitively with Chinese-made Mark Nicholson, New Delhi

US officials acclaim car pact

US trade officials yesterday claimed success for the 1995 US Japan agreement to open Japan's car and car parts markets to foreign producers, saying that in the first six nonths of this year North American exports to Japan had risen 40 per cent against the previous 12 months. The EU, which opposed the US-Japan pact, also saw its car exports rise but at a slower rate – 11 per cent during the first six

US officials expressed concern that only 107 new dealerships for foreign cars had opened this year in Japan out of the 200 projected. However, a Toyota spokesman pointed out that 1,000 Toyota outlets were selling General Motors Cavalier model; almost 2,000 Mazda dealerships were selling cars produced by Ford and Mazda; and 800 franchise deals had been concluded between the Big Three US car makers and Japanese dealers.

The European Union, Canada and Australia will today join talks in San Francisco to evaluate results of the Nancy Dunne, Washington

HK utility in China venture

China Light and Power, Hong Kong's dominant electricity supplier, is poised to take a 35 per cent stake in a power plant to be built in Shenzhen, the special economic zone on the southern coast of China.

The deal is part of the utility's programme of expansion outside Hong Kong, Earlier this year the company, as part of a consortium which includes Electricité de France, was given approval by Beijing to build a 3,200MW power plant in Shandong province. It also holds a 25 per cent stake in the Daya Bay nuclear plant in southern China.

Other partners in the Shenzhen plant include Kanematsu, the Japanese conglomerate that already owns stakes in infrastructure projects in the region. The project, for three 350MW gas-fired generators, is worth an estimated Yn7bn-Yn8bn (\$842m-\$960m). Li Dechen executive vice mayor of Shenzhen, said China Light and Power was brought in as it had more gas – from the South China Sea – than it could use and by joining the project all parties would benefit. Louise Lucus, Hong Kong

lifts sales of industrial robots

Mr Lawrence Summers, the US deputy treasury. secretary, yesterday praised Taiwan's commitment to trade and financial market Sales are expected to rise

units. Japan. which now

agricultural products.

The boycott, however, will not be affected.

By Guy de Jonquières the European

employers' federation, has voiced opposition to US and European Commission demands that the World Trade Organisation should discuss the links between international trade and labour standards. Unice has told EU govern-

ments that most of its 32 member organisations consider that the WTO is not the right forum for such discussions, and that international efforts to curb abuse of labour rights should be pursued in the International Labour Organisation. Unice says most of its

members "are convinced trade system is the best way

essary to improve living and working conditions, and that trade sanctions would not contribute in any way to the goal in view."

1991-93 recession.

Unice's views are set out in a position paper circulated ahead of an informal meeting of EU trade ministers in Dublin tomorrow which is due to discuss the agenda for next December's WTO ministerial conference in December.

The Dublin meeting, which will also be attended by Mr Renato Ruggiero, WTO director-general, is not expected to reach firm decisions. But the EU ministers' views are likely to influence the position taken by Sir that an open multilateral Leon Brittan, Europe's trade commissioner in talks with

"Quad" powers - the US, Japan and Canada - in Seattie later this month.

Unice says that, as well as reviewing progress in implementing the Uruguay Round trade agreement, WTO members should agree in Singapore to launch preparatory work for future multilateral trade negotiations.

These should aim to reduce further tariff and non-tariff barriers and to establish "clear and binding rules" governing trade and environmental policy.

Unice calls for exploratory talks in the WTO on liberalising foreign direct investment and harmonising national customs procedures. But it says it is too early to hold substantive dis- Fax: 231 1445.

petition policy. Sir Leon has said the WTO needs to respond to widespread public concern by addressing trade and labour standards. But EU governments are split on the question. France strongly supports Sir Leon's stance, while Britain firmly opposes

Most developing countries are determined to block any WTO talks on the issue, arguing that it could provide industrialised economies with a pretext for protection-

Unice's priorities for the WTO Ministerial Conference in Singapore. Unice, rue Joseph 11 40/Bte 4, B-1000 Brussels. Tel: 322-237 6511.



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Attacks to many by

How Nick Leeson bought friends and favour

The lingering mystery of the Barings collapse is what happened to the millions of pounds that slipped through the hands of Nick Leeson, its rogue trader on Simex, the Singapore futures exchange. In the first of four exclusive extracts from their new book, All That Glitters, FT reporters John Gapper and Nicholas Denton explain how Leeson gave the money away

THE JARGON

Future: Financial contract. Value depends on future price of a commodity

Option: Financial contract giving the holder the right, but not the obligation,

Margin: Cash or other colleteral deposited with a derivatives exchange

such as orange juice, or financial asset such as shares or bonds.

by traders in proportion to the current value of their holdings of

Simes: Singapore International Monetary Exchange, the futures

change to the Barings traders in Tokyo with whom he dealt. When he started work in July 1992 there was at last someone at the Barings Futures desk at Simex who spoke good English and could talk callers amiably through the state of the derivatives market.

But Leeson's air of calm was deceptive. Moving to the trading floor from the back office was a much bigger change than he had imagined. In his previous job as a settlements clerk, he had dealt with problems that could be analysed calmly. On Simex, things changed all the time. The screens over his head flickered with new prices, the phones rang constantly, and mistakes were punished instantly by losses.

Pressures like this were common at Baring Securities - the stockbroking arm of Barings. They could lead to mistakes as traders bought or sold shares or bonds. It was easy to get confused and end up with more than had been ordered by customers.

Baring Securities usually dealt with left-over contracts by putting them in what was called a suspense account, where they could be held until it was decided what to do with them. Salesmen might be able to place them somehow. Otherwise, the firm would have to sell them again, bearing a loss from any price movement in the meanwhile.

Leeson's main job was to fill orders for customers such as banks and hedge funds. The orders largely came through Barings' futures and options sales desk in Tokyo, run by Mike Killian. Killian, a 39-year-old American, was wiry, with a weathered face and wahrus moustache. He ran the derivatives sales business largely in Japan in isolation from the other Barings operations.

If Killian found himself with spare contracts on his books, he would sometimes place them in a suspense account in the hope that they would rise in value. Come on up baby, come on up. Killian and fellow futures and options salesmen would mutter, as they watched prices change on their trading screens.

Suspense accounts were also used to absorb losses on trades. Simex was a small and not very liquid exchange. An investor placing an order through Barings could easily move the price. Leeson might quote a customer one price, but in fact have to pay more if futures prices moved in the pit as his junior trader executed the order for him.

In order to give the customer futures at the price he had promised, Leeson might have to take a small loss into a suspense account. It could be done through what was called a cross-trade. At the pit, he would signal that he was crossing futures from one Barings account to another by holding his hands crossed in front of him as if wearing a pair of handcuffs.

Leeson could buy contracts at one price, but then cross them into the customer's account at a lower one. It could not be done too drastically. Simex rules forbade cross-trades at prices that were much above or below the was some leeway for changing prices slightly in order to please Barings' customer.

Although the strains were obvious on the Simex floor, their effect only surfaced when trading finished, and the second half of Leeson's working day started. He would take the lift down from the fourth floor of the Overseas Union Bank building where Simex was located and head across the road to the Barings office in Ocean Towers.

It was a relief to get off the floor. It was hot, and although Baring Futures had a prime booth next to the air conditioning, the blue and yellow trading jackets were stifling. Most firms had jackets with aerated vents, but those of Baring Futures were

made of solid material. Leeson had to deal with 37 accounts, including a suspense account opened on his first day. Simex accounts had five-digit numbers, and the suspense account was numbered 99905. When the Baring Futures' positions had been entered on its own internal computer system, they were transmitted to Simex.

constantly, leaving delays of three or four hours in which Leeson would not know if trades agreed. If there was any discrepancy, Baring Futures had to make up the difference. If Simex records showed that Baring Futures was short of 10 futures, Leeson would have to buy 10 the next day, and place any compensating loss in 99905.

Each day, the Barings Futures computer sent four pieces of information on each account to London. But on July 3, Gordon Bowser, the head of futures and options settlement in London rang to say he did not want to be sent all the details of 99905, because the errors were straining the London office's settlements software, with which Barings had

Leeson said he would set up another account to hold all minor errors, and send only the bill for margin payments to London. He asked Riselle Sng, one of two settlements clerks in Singapore, her lucky number. She said that eight was lucky in Chinese. The word "bat" meant both "eight" and "prosperity". Leeson set up a

to buy an asset at a set price in the future.

and options exchange in Singapore.

The five eights account gave

Leeson the buffer he needed.

More than 200 contracts passed

through it each day in the last

week of July. The bill came on

the final day, when Leeson had

to produce monthly accounts. By

then, the five eights account con-

tained a loss of Y11m (£49,000).

Leeson either had to write this

amount off openly, or try to hide

This was a large amount to

attribute to errors. There was a

danger that if he declared it. Lon-

don would think he was not run-

ning a very tight ship. Because

Leeson was in charge of the back

office, he did not have to do so.

He could adjust the accounts to

hide it. It was simple to shuffle

Yilm from the margin held for

Baring Futures' customers at

Citibank into a sub-account for

five eights, and move it back two

Leeson needed some calm to

get on top of things, and correct

the loss that he had concealed in

five eights. He was not to get it.

The main contract in which he

stock market's Nikkei 225 share

index. Because the Japanese gov-

ernment mistrusted futures trad-

ing and had imposed restrictions

on domestic futures exchanges,

Simex had obtained much of the

trading on this index. But the Nikkei 225 had been falling for 18

months by July 1992, dropping

more than 60 per cent.

the loss somewhere.

days later.

futures and options.

measures to prop up its alling banks, and said it would unveil an economic stimulus package by the end of August. The index Thursday 20. Orders flooded into Simex from around the world.

The rush of orders created turmoil on Simex, and led to an incident that Leeson was later to classify as the start of his hidden trading in five eights. On Friday August 21, the Nikkei rose by nearly 1,000 points on expects tions of the forthcoming eco-

nomic recovery package.

Leeson had just taken on a young clerk called Mitsuko from a firm of local accountants. That morning, she took an order for 20 futures for Fuji Bank. She mistook it as an order to sell futures on its behalf instead. The order was passed to the Nikkei pit along with others, and was exe-cuted at the market price.

By 2.15pm, when the day's trading on Simex ended, the Nikkei was 200 points up from the level at which Barings had sold 20 futures. Leeson discovered this at about 8pm, as he sorted through the day's trading in Ocean Tow-ers. Because Barings Futures had

sold instead of bought, it was out

So far at Barings, Leeson had a

pristine record. He was fearful to

spoil it now by disclosing the

mistake. He worked himself up

into a rage as he walked over to

the Hard Rock Cafe, a favoured

bar among expatriates, where he

had agreed earlier to meet some

As he walked in, Lesson saw

Mitsuko, who already knew of

the error. She was in tears at her

mistake, and Leeson reassured

her she would not be held to

blame. Swigging at a beer in the

hot, and crowded club, he

resigned himself to putting yet

another loss into five eights. The

fact that it was not his fault

Simer was now approaching

the expiry of the September Nik-

kei futures contract on the 10th.

Time was running out for inves-

tors who were holding futures on

the wrong side of the Nikkei

stock market index. The futures

index was usually slightly above

it, reflecting the extra costs of

holding shares. But the two indi-

ces converged towards expiry.

finally meeting at the last min-

utes, known on some exchanges

the last days before expiry, as

traders switched positions from

September futures to December

ones in a process known as "rolling". They did this by selling

Trading was very intense in

made him feel like a martyr.

rice had risen, it would

Y4m (£18,000) to rectify.

traders for a drink.

It cost money because Decem ber futures still had a premium over shares, and would trade at a higher price. This gave all the brokers on the Simex floor a chance to demonstrate their prowess, as they tried to achieve the transaction for their clients as cheaply as possible.

Despite the problems of the five eights account, Leeson was determined to excel in this test, the first time he had faced it. A trader could roll futures by doing the two sides of the deal - in this case, the September sale and December buy - separately. How-ever, this meant taking a risk on the market moving between the two deals, and a less risky method had developed on Simex. The two sides of the transaction could be done in a single deal

A trader could walk to the Nikkei futures pit, and buy a roll at a single price. As the early days of September passed, traders could be seen more often at the Nikkei pit making the sign for a roll, a thumb and forefinger pinches together repeatedly. The price of a roll was set by the gap in prices between the September and December contracts.

When the September contract was trading at 18,000 and the December one at 18,095, a trader could sell a roll on the two for 90 points, and buy one for 100, or 750,000. It was expensive for customers, and a trader who could offer a better price could attract lots of business.

Leeson soon started offering far better than market prices for rolls. In the run-up to exptry, he was given a hig order by Banque Paribas, a French bank which was among Baring Securities' by 40 contracts. Since the market bas, and then for Barings' Tokyo traders. Lesson consistently best the rest of the market by up to 20 points per roll.

This meant that a trader rolling 100 contracts would gain Yim (£4,500) by doing so through Lesson instead of another broker. Paribas was pleased with the results, and started to direct most of its orders for rolls to Baring Futures. Leeson's keen execution of rolls also came in useful in Tokyo, where it boosted the profits of Barings' traders.

Although Leeson had been seen as a good executor of orders before then, the September rolls made him stand out. "Amazing job, Nick," Ming San Lee, a Tokyo trader told him, as Leeson produced yet another keenlypriced roll. Some of the traders assumed Leeson must be taking trading risks to get such good prices. He could do that by making his own rolls rather than going to the Nikkei futures pit to buy them. The Nikkei was rising sharply, which would have given him an amounturity to first huy December futures, and then wait until the price gap closed before

selling September ones.

This was known as "lifting a leg" or "legging", because it involved keeping one side - or leg - of a matched contract open. It appeared to some that Leeson must be legging to be offering such prices. Richard Magides, a trader working for Barines in Hong Kong, rang Leeson to warm him of the risks of legging. "It's

Magides knew that if the market moved unexpectedly, the price gap would widen rather July 1993, he almost escaped. than narrow and Leeson would be in trouble. What he did not

went wrong, leaving him with rolls that were too expensive to sell. He could dismiss them as "errors", and hide them away in the five eights account. In his own mind; Leeson saw the good rolls as genuine, a mark of his trading prowess. The bad trades were something else entirely: just mistakes made by his floor traders. He did not acknowledge the inextricable link between the two: he was

of its grateful customers. As he did so, he inflated his own reputation. Leeson had to carry out about 10,000 rolls each quarter. Most went to Barings customers, although some were for its traders. By handing out rolls at a knock-down price, Leeson in effect gave away Y100m (£450,000) from the 88888 account during September 1992, only his third month of trading. It was hardly surprising that he was becoming popular.

starting to siphon money out of

Baring Securities into the hands

know was that Leeson had a solu-

tion at hand for any trades that

Six months later, at the March 1993 witching hour, word had spread of Leeson's powers of execution, Killian's salesmen in Tokyo started charging a fee to customers who wanted to buy Leeson's rolls. Fuji Bank, Chemical Bankhig, and Desn Witter were all keels to buy, and his prices were so out of the ordinary. that they were charged a fee of Y2,500 (£11) per roll.

By consistently giving money away, Lesson was digging a hole for himself in Account 88888. He convinced himself that he could gamble his way out of it by holding futures in the account that

after he started his deception, his tactic failed. But in June and

As the Nikkei market stabilised in the late spring, Leeson man-aged to gamble his way back to break-even in the five eights account. By July, he had retrieved the money he had squandered. One Friday night, he and Lisa had a barbecue at home with friends. Lesson confi his wife that he had been through some problems at work. and at one point had been film down. But it was now all right, -

he had made up his losses. She was shocked, and urged him not to take any similar risks again. But he could not kick the habit of using Account 88888 without disclosing an uncomfortable truth to those around him: he could only conjure up his amazing trades by using it to take losses. Without it, there would be little praise and recognition. He soon started to use 88888 again.

The pressure on him quickly escalated. By autumn 1998, losses. in five eights had built up once more. In the three months since his failed attempt to stop, he had buried losses of 25.5m. Leeson urgently needed to find a new way of generating cash to cover the hole in the accounts. The solution belitted his experience as a settlements clerk

Lesson invented a trading operation which he could carry out from Simex that appeared to sequire huge flows of cash from London. This scheme - which became known as "switching" inter came to play a central role in Barings' collapse, because it allowed Lesson to appear to be generating risk free profits while actually diagring the bank fur-ther and further into trouble.

Switching relied on the fact that contracts on the Nikkei 225 stock market index were traded both in Osaka in Japan, and in

Barings' Tokyo traders before that there might be profits in switching orders between the two, to exploit any slight differences in price that might arise. By buying cheaply in one market, while selling the identical might be able to make a small

amount on each trade, a process known as "arhitrage" In the spring of 1992. Fernando Gueler, a derivatives trader working for Barings in Tokyo, had tried to arbitrage gaps between prices on Osaka and Simes. But although he had made small profits, he had been badly caught one day when one

market moved against him For an honest trader, the profits were too small for the risks. But Leeson had another reason to make switching appear worthwhile. Simex had tried to encourage arbitrage by allowing firms with contracts which matched on the two exchanges to net them off against each other before depositing the cash collateral known as margin. No one in London knew this rule, and Leeson

kept it quiet from Gueler. This gave Leeson an opportunity. He could build matched positions on Simez and Osaka, and demand a large amount of cash from London to pay margin. However, the netting rule would allow him to put some of the cash on one side. Instead of depositing it with Simez, he could retain it at Citibank in Singapore, and fill the hole in Account 88888

But Leeson could only runsuch a fake operation if it appeared to his bosses in London to be making profits. In November 1993, as he stepped up his switching activity to draw in cash for Account 88888, he distracted attention by manufacturing profits. Leeson placed Y750m (£4.5m) of apparent profits into the accounts of Baring Securities in Japan in November, taking compensating losses into five eights. The Tokyo traders were impressed at his skills, although it was hard to see how he was making so much money. When Gueler tried to explain why at a staff meeting in early December, he trailed off awkwardly. Leeson ended 1993 with losses

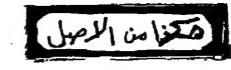
of Y4.5bn (£28m) in Account 88888. London was unaware of the losses, since Account 88868 was still concealed. Indeed, Leeson's operation was scarcely visible from the commanding heights of Barings' London office. That was about to change - but in the most dangerous possible way.

TOMORROW: Where did the conspiracy theory come from?

All That Glitters is published in the UK by Hamish Hamilton, £20. It can be rdered from FT Bookshop: Freecall 0500 418 419 or + 44 181 324 5511 from outside the UK (free pap in UK)







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CREATING TOGETHER

Churchill's vision of Europe recalled

By Quantin Peel in London

Mr Malcolm Rifkind, the British foreign secretary, will today attempt to revive a positive view of European integration as a partnership of nations, not a United States of Europe.

On the 50th anniversary of Str Winston Churchill's speech in Zürich, when Britain's wartime prime minister first presented his vision of European reconciliation to heal the wounds of the second world war, Mr Rifkind will use the same city to launch his appeal for a flexi-

ble European Union. At the same time he will throw his weight behind the drive for the enlargement of both the North Atlantic alliance and the European Union to central and eastern Europe, setting 1999 as the target date for the first new members of Nato. The first wave of EU enlargement should follow "as soon as possible after that", he says.

His speech to a Churchill commemoration conference will casting doubt on the whole project amount to a ringing endorsement of the achievements of the EU and Nato, likely to anger some of the for flexibility in EU membership to

governing Conservative party's be defined with extraordinary care most passionate Eurosceptics.

He will also praise Germany, seen by the Eurosceptics as the architect of excessive European integration, as the embodiment of Europe's "spirit of reconciliation", and as symbolising "the re-creation of our European family".

He will stop well short, however, f committing himself to further big steps towards EU integration, for economic and monetary union. He will also make an urgent plea if the EU is to remain united. in a text published yesterday in

London he says: "Flexible arrangements should not be imposed against the wishes of some member "If monetary union goes ahead,

the European Union will be divided into two groups of members for the foreseeable future, regardless of any decision by the United Kingdom to participate in a single cur-rency or not." Around half the member states, and all the 12 applicant countries from central and

eastern Europe, would be unable to meet the convergence criteria for Emu for many years ... Such a divided Europe was not what the founding fathers had in mind."

He will insist; however, that when Sir Winston proposed his vision of a "United States of Europe" in his Zürich speech, he did not see Britain as a full mem-ber, either. Finally, Mr Rifkind says, Sir Winston described Britain, the US and the Soviet Union as being "the friends and sponsors of the new Europe", rather than its full members.

Minister to discuss Nazi gold restitution

The British government is for the first time raising the possibility of transferring around 4,000kg of gold which it recovered from Germany after the second world war to the families of holocaust victims.

The gold, which has a present day value of around £31m (\$48.36m), has been in caust victims

Mr Malcolm Rifkind, UK foreign accretary, yesterday said he would raise the possibility of such a transfer after meeting opposition Labour party MP, Mr Greville Janner, who has high-lighted how large quantities of gold plundered by the Nazis reside in European central bank veults.

Mr Janner wants the Bank of England gold transferred to the World Jewish Restitution Organisation (WRJO), which transfers plundered Nazi funds to holocaust survivors. The Foreign Office confirmed Mr Rifkind would look into the issue,

the vaults of the Bank of England - the UK's central bank - for 50 years. But in a move that could put more pressure on Swiss banks to investigate their own reserves of Nazi gold, the UK is to discuss whether the a Jewish group organising restitution on behalf of holo-

The 4,000kg of gold in the Bank of England's vaults is held in the name of the UK, US and France - the members of the post-war Triper-

UK NEWS DIGEST

Public spending 'running high'

Government borrowing in August outstripped last year's levels, casting fresh doubt on the public sector borrowing. target and on tax cuts in the national Budget to be amounced in November. The Office for National Statistics said the government borrowed £5bn (\$7.8bn) last month, excluding privatisation proceeds, to cover the shortfall between spending and tax revenue.

This was up on the same month last year and was higher than City of London economists expected. Lower value added tax revenues, which were about £1bn below levels in the same month last year, were blamed for the revenue shortfall. Including privatisation proceeds, the public sector borrowing requirement was £4.5bn in

This left the PSBR in the first five months of the current financial year at £13.4bn, below the £16.7bn recorded at the same stage last year.

The Treesury insisted that the government was still on

track to meet its PSBR target for the whole year of £27bn but some economists remain unconvinced.

■ WATER INDUSTRY

Union supports French takeover

Unison, the public services union, yesterday stepped into a controversial water takeover battle by endorsing a proposed joint hid for Mid Kent Holdings by two French com-Mr Bob Brandley, senior regional officer for Unison in

the south-east of Engiand, said Unison supported the proposed takeover bid by General Utilities and Sour because, unlike Mid Kent, they recognised unions.

Mr Brandley said his members, who included about 80 of Mid Kent's administrative staff, would feel more secure with French owners in spite of the fact that a takeover of Mid Kent would involve reductions in the number of its white collar staff. The proposed joint bid is currently being reviewed by the Monopolies and Mergers Commis-

■ INFORMATION TECHNOLOGY

Western skills shortage warning

The IT industry faced a growing skills shortage, delegates at the international Data Corporation annual Information Technology forum in Paris was told yesterday. Mr Peter Rowell, chief executive of Regent Associates, the UKbased mergers and acquisitions group suggested that countries such as india, the Philippines and eastern Europe, which had large pools of skilled but relatively low-cost labour, should benefit as programming in the west shifted offshore.

Mr Rowell also warned of an imminent shake-out among internet access providers – specialist companies which provide connections to the Internet. "I don't think there will be many internet access providers left within one or two years," Mr Rowell said. Eventually the market would be dominated by the traditional telecommunications companies such as British Telecommunications, he Paul Taylor

COMPUTER SERVICES

US group wins courts contract

The contract to supply computer services to all county courts and Crown Court centres in England and Wales has been awarded to Electronic Data Systems, the USbased computer services company – under the govern-ment's private finance initiative. The contract is estimated to be worth between £20m (\$31.2m) and £25m to EDS over seven years. Robert Rice

Inventing ways to beat rival producers

By Peter Marsh

novel system for packaging lipsticks and a technique for "recycling" old machine tools were among the winners at last night's achievement awards backed by the Department of Trade and Industry and the Engineering Council, the main promotional body for qualified engineers.

The manufacturing industry awards, organised by Miller Freeman, a publishing company, have been handed out for the past three years and are intended

to foster innovation. Among the other winners in 17 categories of awards were Jaguar for a production line in the Midlands town of Coventry for its XK8 car, instrument maker Celsis for a hand-held device to check for contamination in restaurants and food

By William Lewis in London

UK companies see China as

the most attractive emerging

market to invest in but

remain unsure about Russia,

a survey of executives has

China has 25 times more

A survey of 100 executives

working at 600 of the largest

commissioned by Control

foreign direct investment

than Russia.



All wrapped up: Michael Freeman, the chairman of Turpins Packaging Systems, with his latest award-winning machines

nology, an electronics company, for satellite receiving

The winner of the award in the category for packag-ing systems was a machine for putting plastic sleeves on cosmetics, food and other sumer goods at the rate of about 250 a minute. It was developed by Turpins Packaging Systems, based in Clacton-on-Sea. Essex.

Such sleeves have been

tancy, also shows that

Nigeria is seen as the least

attractive emerging market.

Survey participants were asked to judge the prospects

of 40 emerging economies

and security at the top of

cent of UK companies with

international operations are

mies. India was judged to be

their list of concerns.

public companies in the UK investing in emerging econo-

and placed political stability

Overall more than 75, per

products where the maker company employs 60 people wants to prove to consumers and has annual sales of that the items have not been

tampered with. Mr Mike Freeman, chairman and owner of Turpins, has been awarded about 70 patents for packaging inventions in the 30 years he has been running the company. "But patents don't count very much; in this business you've got to be first and fast to keep ahead of the

per cent of participants fore-

casting increased opportuni-

ties over the next five years.

Two-thirds of survey par-ticipants said they favoured

some form of local nartner-

ship when investing in

emerging markets, while only 12 per cent said they

prefered to invest alone.

However, companies said

fraud and criminal activity

carried out by partners was

a major cause of concern.

about 23m (\$4.68m).

Johnson Matthey, the metals company, uses the systems for shrink-wrapping gold bars to stop them getting scratched in transit between vaults.

The award in the factory equipment category went to Swiftlevel, a Liverpool company which sells £40,000 machine tools made partly from "cannibalising" com-

son, uses as raw materials machine tools dating from the 1950s and produced by Brown & Sharpe, of the US. These machines are purchased from scrap yards and machine tool dealers for shout £600 each, The company has a staff of seven

ponents from redundant

The company, set up in

1992 by Mr Philip Wilkin-

producing annual sales of China is 'most attractive emerging market' and business risk consul- ket for the future, with 80 research at Control Risks,

tools.

ing problems of corruption and organised criminal activity. Mr Battman said that ahead of the recent Russian presidential elections "a number of Control Risks' clioperating in Russia

seid: "Many companies still

face considerable challenges

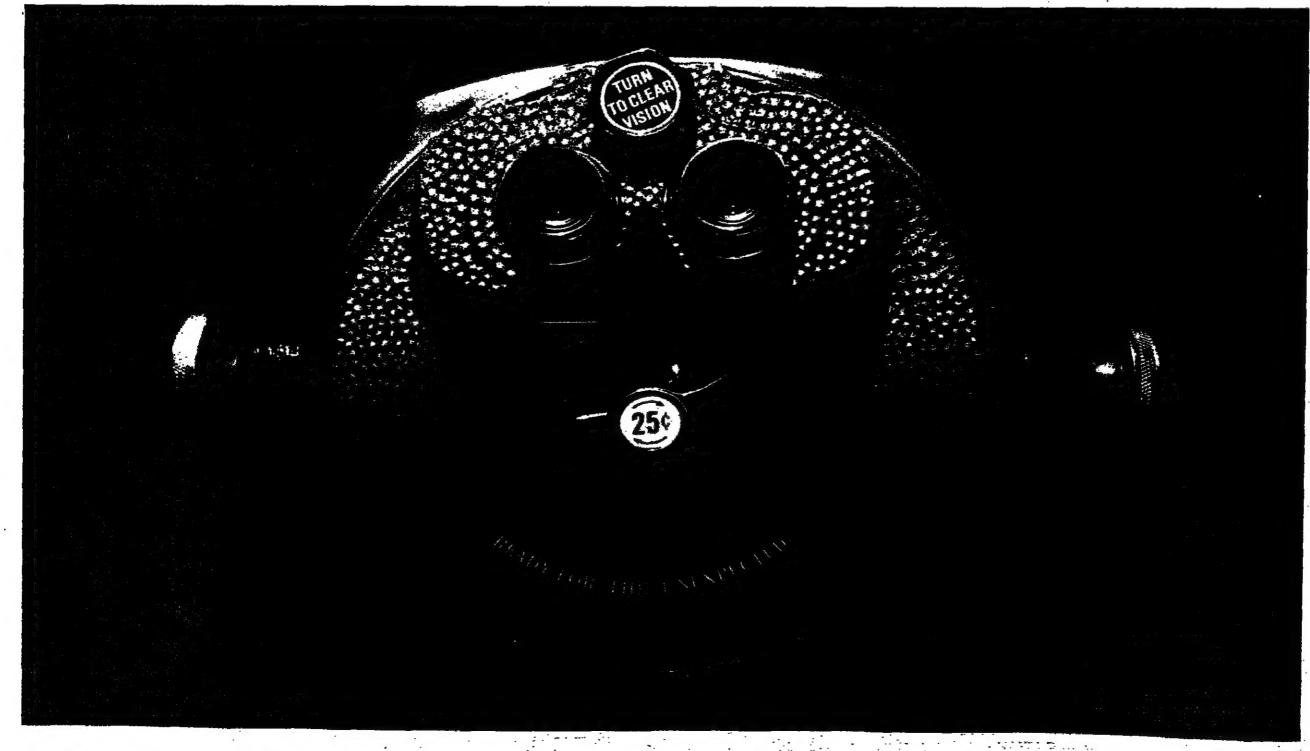
on at least two fronts:

adjusting to often ambigu-ous business and political

environments, and combat-

behaving increasingly strangely". This behaviour ranged from demands for major credit extensions to "prolonged and unexplained absences from Russia". Control Risks said this behaviour was influenced by "the jockeying for patronage and nfluence in anticipation of June's presidential elec-

However, UK companies said they believed opportunities would increase in Russia



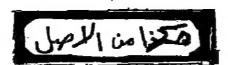
Customers couldn't be more pleased to hear that their insurer is ready for the unexpected. For nobody knows what is lurking in the distance. Investors may be looking at

it from a slightly different angle. They have pretty clear expectations about their company's financial strength, sustainable high earnings power and development of shareholder value. Come to think of it: Isn't that what oustomers appreciate as well - value based on a strong global position, a clear, successful strategy, and services that far sur-

pass traditional insurance solutions? Our investors know we are committed to them - after all, we're investors ourselves, to the tune of \$ 65 billion. Our customers know we are

committed to them, since managing and minimizing risk is our vocation. So being ready for the unexpected obviously is the best way to meet all our partners' expectations.





By Haig Simonian, Motor Industry

The export potential of

Britain's motor components

industry was underlined yes-

terday after BMW awarded

its biggest single contract

with a UK manufacturer to a

company making high-tech-

nology flywheels for its new

The German luxury car-

maker, which owns Rover,

has signed a deal worth up

to £17m (\$26.52m) a year

with Automotive Products, a

specialist engineering com-

pany based in the Midlands, to supply speed-sensitive fly-

wheels for BMW's forthcom-

ing family of four and six-

The company claims its

flywheel goes further than

any existing flywheel in

It is based on an innova-

tive design which uses two

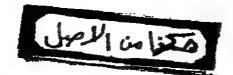
car's engine and gearbox.

ber 1996.

cylinder engines.

generation of car engines.

Correspondent



of the industry.

global markets.

realises its simulards are so

rivals that it needs a direct

injection of expertise from

outside Britain. On the

other, the steady flow of

confidence to compete in

far behind its international

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Caralla Processing A

14. 1 19. 19. 19. 19.

h takeover

Marie Company

Marine I am the first for

And the second s H. P. S. Carlow St.

al Marine Cong ge warning

Acres (Fig.)

25.00

w contract

carries on in the context Augusta. Represent or future, of the United Kingdom is subject to the provisions of any law, present or future, of the United Kingdom directed to preventing avoidance of texation by persons domiciled, resident or ordinarily resident in the United Kingdom, and, in particular, the interest will not be except from income tax where, under any such provision, it falls to be treated for the purpose of the Income Tax Acts as income of any person resident or ordinarily resident in the United Kingdom.

crankshaft and gearbox of automated machining and an engine linked via a spe- assembly facilities convently

to specialist group

components companies thanks to competitive pricing and innovative engineer-

Mr Brian Gaunt, the chief

Products, said: "It is widely could influence its negotiarecognised within the industry that BMW require exacting standards from their component suppliers, and so we are doubly delighted in the award of the contract." Automotive Products,

which gained independence after a 2181m management buy-out from the BBA industrial group in April 1995, has invested £10.6m in a new factory to produce the fly-wheels at its Learnington Spa site about 100 miles porth of London.

reducing vibration from a The modular facility, which is due to be completed lem. About \$1,000 Fiestas next August, will be fitted and Courier vans are flywheels attached to the with the most advanced

This Stock will, on issue, be an investment falling within Part II of the Pirst Schedule to the Trustee Investments Act 1961. Application has been made to the London Stock Exchange for the Stock to be admitted to the Official List on

invite bids for the above Stock.

The principal of and interest on the Stock will be a charge on the National Louis Fund, with recourse to the Consolidated Fund of the United Kingdom.

5. The Stock will be required by Paris Value 2021.
4. Stock issued under this prespectus will reak in all respects part peasu, and will be immediately fougible, with the existing Stock and will be analgamented with the existing Stock in the Central Gilts Office (CGO) on issue and on the register on registration. Consequently, the price payable for the Stock will include an amount equal to accrued interest from 7 June 1996, the last interest payment date of the Stock, until settlement on 26 September 1996 at the rate of £2.43288 ner £100 nominal of Stock.

per £100 nominal of Stock.

5. The Stock will be registered at the Bank of Singland or at the Bank of freland.

Belfast, and will be transferable, in multiples of one passay, by instrument is writing in accordance with the Stock Transfer Act 1963. Stock registered at the Bank of England held for the account of members of the CGO Service will also be

transferable, in multiples of one pamy, by exempt transfer in accordance with the Stock Transfer Act 1982 and the relevant subordinate legislation. Under current

Engistation, transfers will be free of stemp day.

6. Interest is payable half-yearly on 7 June and 7 December. Interest warrants will be sent by post. This further issue of the Sectic will tenk for the full tax; months' interest due on 7 December 1996; income tax will be deducted from this interest payment (but not, as described in paragraph 13 below, subsequent interest payment) unless a relevant exception applies.

8. The Stock and the interest payable thereon will be exempt from all United Kingdom tauarion, present or future, so long as it is shown that the Stock is in the beneficial ownership of persons who are neither domiciled nor ordinarily resident

the beneficial ownership of persons who are not ordinarily rasidant in the United Kingdom of Great Britain and Northern Ireland.

10. For the purposes of the preceding paragraphs, persons are not ordinarily resident in the United Kingdom if they are regarded as not ordinarily resident for

resident in me union suggested the purposes of United Kingdom income tax.

11. Applications for exemption from United Kingdom income tax should be the Commissioners of Inland Revenue.

made in such form as may be required by the Commissioners of Inhied Revenue.

The appropriate forms may be obtained from the Inhand Revenue, Financial Intermediaries and Claims Office, Pitz Roy House, PO Box 46, Nottingham, NG2

Taxes Management Act 1970, Section 43 (1), no such claim will be outside this

time that if it is made within aix years from the date on which the interest is payable. In addition, these exemptions will not apply so as to exclude the interest from any computation for taxation purposes of the profits of any trade or business carried on in the United Ringdom. Moreover, the allowance of the exemptions is

ordinarry restrent in the United Amgoorn.

13. It is intended that, if an official facility for the stripping of gin-edged accurities is introduced, the Stock will be strippinte subject to the terms of that facility. On 10 July 1995 the Chanceller of the Exchanger amounced that the

12. These exemptions will not sotilite a person to claim repayer lectured from interest unless the claims to such repayment is made within the time limit provided for such claims under steems task law; under the provisions of the

ome tax, present or future, so long as it is shown that the Stock is in

in the United Kingdom of Great Britain and Northern Ireland.

9. Further, the interest payable on the Stock will be stompt from Uni

The Stock will be repaid at par on 7 June 2021.

THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND

cial damping device. : ... available, said Mr Bob Bry-The deal highlights the ant, Automotive Products' growing appeal of Britain's sales and marketing director.

He was reluctant to say whether the BMW contract would create jobs, but said that netting a "high-profile" executive of Automotive customer such as HMW tions with other carmakers and prompt further business and employment.

> which specialises in braking and transmission equipment for the motor industry. employs about 2,000 people and made operating profits of £7.3m in its first nine months as an independent manufacturer last year.
>
> • Ford yesterday asked British owners of some Flesta models to take their cars to

dealers for adjustments to a

reported brake pedal prob-

and Courier vans are

Automotive Products,

pleted, but they are expected to arrive within two manufacturing presence

Volkswagen and General

Motors will send one. Negotiations have yet to be com-

in the UK of eight penents from the UK.

The team will pool its

The teem will pool its motive components sector is to raise standards among 10 a sign of both the stack real-UK suppliers. If all goes ism and the sheer ambition well, it will also train up to 30 UK engineers to continue On the one hand the £15bn the work in the wider indus-(\$28.4bn) a year industry try, before their departure

in 18 months' time.

NEWS: UK

At the project's heart is a belief in the principles of quality, cost and delivery which have been the touchstone of inward investment inward investment in the in the UK motor industry. industry has given it the But there is widespread concern that the working practices of the international con The result is a unique pro- producers have not yet gramme which has brought reached the industry's

turers to help the UK. The Industry runturers to help the UK. The Industry runturers to help the UK. Which is organising the visit which is organising the visit manufacturers and of Motor Manufacturers and Traders and the Department of Trade and Industry - is a recognition of the challenge facing the sector. Chaired by Mr Ian Gibson, chief executive of Nissan UK, the forum All the engineers repre-sent producers with a UK such as Mr John Neill, chief executive of Unipart, and Mr

tive products division. Mr Graham Broome, the engineers in an attempt to manufacturing expertise forum's chief executive, raise standards in the auto-Nissau and Toyota bringing to our doorstep examples of Japanese-style working practices that transcended cultural barriers. But these manufacturers can only go so far down the supply

> Eight overseas engineers have been chosen to help raise manufacturing standards

chain. Their first-tier suppliers have been introduced to these global practices. Further down, the learning process is nowhere near as fast as we would wish."

Renchmark studies comparing Japanese suppliers and their international rivals paint a gloomy picture of the 6,000 compo except Volkswagen, which is Trevor Bonner, managing companies in the UK. and managing director at

sulting, Cardiff Business School and Cambridge University, UK productivity is less than half that of the flicting interests of suppli-

product defect rates are 100 times worse than the best plants in Japan. It was against this backdrop that the £4m forum was set up last November. It is a sign of the complexity of the talks with the inter-

national motor companies

best Japanese suppliers and

that it has taken a year to gain a full commitment. The project traces its beginnings back to 1993 when the DTI launched its Learning From Japan programme, in which 12 smaller components compames visited counterparts in Japan. Their experiences were distilled into a series of principles such as the elimination of waste, new product development and

the benefits of teamworking. The latest project received a fillip this month with the arrival of Mr Broome in his new post as the forum's chief executive. Mr Broome has worked as both a manu-

BMW order goes International rescue for car components According to Andersen Con- Bundy, the components division of TI Group.

It is this mix of experience - combining the often coners and manufacturers that is one of the simm of the

DTI and the SMMT.

The changes to the supply chain have been rapid. Rover, for instance, has reduced the number of its suppliers from 2,000 to less than 500 during the past five years. Such changes put increased demands on surviving suppliers to develop more complex products at higher levels of quality. The industry admits that if it does not raise its standards quickly, overseas competitors could soon replace UK companies in the supply chain.

"The message of globalisation is now hitting home," Mr Broome said. "It is not just a question of satisfying local vehicle manufacturers here in the UK. There is huge export potential if you can improve the components supply industry which counts for the lion's share of the cost of a motor car."

Richard Wolffe

ISSUE OF £3,000,000,000

8% TREASURY STOCK 2021

INTEREST PAYABLE HALF-YEARLY ON 7 JUNE AND 7 DECEMBER

FOR AUCTION ON A BID PRICE BASIS ON 25 SEPTEMBER 1996 PAYABLE IN FULL WITH APPLICATION

With a competitive bid

With a non-competitive bid

Price bid plus accrued interest £105 per £100 nominal of Stock

out had decided is principle to introduce such a facility and had also of price and Stock will be sold to applicants whose compa Government had decided to principle to introduce such a facility and had also decided that any securities made strippable through any such facility would be exempt from withholding tax and from the querterly accounting arrangements which were introduced with effect from 2 January 1996 in connection with sale and repurchase agreements for gilt-edged securities. It was further assounced on 13 August 1996 that inseriest payments due to be paid on 7 June 1997 and thereafter on gilts intended to be strippable would be paid without deduction of United Kingdom income tax and would be exampt from those quarterly accounting arrangements. This includes 5% Treasury Sucit. 2021. Her Majesty's Treasury lawed the remainly direction mades Section 50 of the leasons and Connecting

strangements. This includes 8% Treasury Stock 2021. Her Majesty's Treasury issued the requisite direction under Section 50 of the lacome and Corporation Taxes Act 1986 in respect of this Stock on 13 August 1996. The starting date for an official strips facility will be assummed in the course.

14. Further details of the tex treatment of securities resulting from the stripping of stock of this issue will be determined at or prior to the continencement of an official strips facility. Accordingly, the availability and terms of the exemptions in paragraphs 8 to 12 above is relation to such stripped securities are subject to modification.

Method of Application

Method of Application

15. Bids may be made on either a competitive or a non-competitive basis, as set out below, and must be submitted on the application form published with the prospectus. Each application form must comprise either one competitive bid or one non-competitive bid. Olik-edged markst makers may bid by telephone to the Bank of England not later than 10.00 am on Wednesday, 25 September 1996.

16. Application forms must be sent to the Bank of England, New Issues, PO Box 444. Gloucator, GL 1117 to errive mot later than 16.00 AM ON WEDNESDAY.

25 SEPTEMBER 1996; or lodged by hand at the Carrier Gitts & Moneymenter.
Office, Bank of England, Threshoothe Street, London not lane than 16.00 AM
ON WEDNESDAY, 25 SEPTEMBER 1996; or lodged by hand at any of the TUESDAY, 24 SEPTEMBER 1996. Bids will not be revocable betw 10.00 am on Wednesday, 25 September 1996 and 10.00 am on Monday,

17. The Burk of England reserves the right to require evidence of the identity of any applicant for Stock or of any person for whom an applicant is acting as agent, believe to provide satisfactory evidence of identity may result it delays in desputch of certificates. In addition if, for whetever reason, such evidence of identity is not provided as soon as is reasonably practicable (in the Benk of England's determination) and in any event within 21 days after the succion, the Benk of England's determination) and in any event within 21 days after the succion, the Benk of England may reject the application or cancel the sale of any Stock, and take any ther action it may think fit.

18. Cancellation of a sale of Speck for any reason will not affect the ive sale price or any other sale of Stock. COMPETITIVE BIDS

Bach competitive bid most be for one amount and at one price, excluding accrued interest, expressed as a multiple of 1/32nd of £1 and must be for a minimum of £500,000 nominal of Stock and for a multiple of Stock as

£100.000 £500,800-£1,000,000 £1,000,000 or greater £1,000,000

Unless the applicant is a member of the CGO Service, PAYMENT-IN FULL AT THE PRICE BID PLUS ACCRUED INTEREST AT THE RATE OF SLATES PER 1800 NOMINAL OF STOCK must be made by a CHAPE payment. Each CRAPS payment must be sent to the Serring Banking Office, Bank of England (Sort Code 10-00-00) for the credit of "New Issued" (Account sumber 58560009) quoting the reference "873'2021", to antive not later than 1.30 per on Thursday, 26 September 1996. CHAPS payments sound be debited in an account in the name of the applicant (or an account in the joint names of the applicant may building society in the United Kingdom.

building society in the United Kingdom.

(iii) The Bank of England reserves the right to reject any competitive bid or part of any competitive hid. Competitive bids will be ranked in descending order.

of price and stock will be soon to applicable whose compensive lock for it of should be accepted (the lowest accepted price). APPLICANTS WHOSE COMPETITIVE BIDS ARE ACCEPTED WILL PURCHASE STOCK AT THIS PRICES WHICH THEY RID (PLUS ACCRUED INTEREST): competitive bids which are accepted and which are made at prices above the lowest accepted price will be assisted in fall; competitive bids which are made at the lowest accepted price may be satisfied in full or in part only. NON-COMPETITIVE RIDS
A non-competitive bid, other than one made by a gill-edged market maker.

must be for not less than £1,000 accelent and not more than £500,000 accelent of Stock, and must be for a unlitiple of £1,000 nominal of Stock. Only one non-competitive bid may be submitted for the benefit of any one person, and each non-competitive application form may comprise only one non-competitive bid. Multiple applications or suspected smultiple

applications are liable to be rejected.
Unless the applicant is a member of the CGO Service, a separate cheque representing PAYMENT AT THE RATE OF \$105 FOR EVERY £100 representing PAYMENT AT THE RATE OF \$105 POR EVERY £106 NOMINAL OF STOCK APPLIED FOR must accompany each non-competitive bid; cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Indeeds or the Isle of Man.

The Bank of lingland reserves the right to reject any non-competitive bid. Non-competitive bids which are accepted will be accepted in full at the non-competitive sale price plus account interest at the rate of £2.43288 per £100.

nominal of Stock. The non-compensive sale price will be EQUAL TO THE AVERAGE OF THE PRICES AT WHICH COMPETITIVE HIDS HAVE BEEN ACCEPTED, the average being weighted by reference to the amount accepted at each price and ROLINDED BOWN TO THE NEAREST MULTIPLE OF 1/32ND OF &I.

If the non-competitive sale price, plus accused interest, is lass than £105 per £100 nominal of Stock, the balance of the amount paid on application will be

refunded by cheque sent by post at the risk of the applicant ve sale price, plus accrued interest, is greater than £105 per £100 nominal of Stock, applicants whose non-competitive bids are accepted may be required to make a further payment equal to the non-competitive sale price, plus accrued interest, less £105 for every £100 led to them. An applicant from whom a payment is required will be notified by letter by the Rank of England of the tock elicented to him and of the further payment due, but such notification will confer no right on the applicant to transfer the amount of Stock so allocated. The despatch of certificates to applicants from whom a further payment is required will be delayed until such further payment has

(vii) Each gilt-edged market maker may bid non-competitively for up to 0.5% of the Stock on offer.

21. The Bank of England may sell less than the full amount of the Stock on offer

22. The Stock will be issued in registered form. Except in the case of Stock hold e account of members of the OGO Service (for whom separate areas apply), registration will be in accordance with the instructions given in the application form. The Bank of England may decline to register Stock unless it has obtained such evidence as it may require of the identity of the applicant and of any

person for whom the applicant may be aming as agent.

23. Cartificipes in respect of the Stock sold (other than amounts held in the CGO) Service for the account of members) and the refund of any excess amount paid, may at the discretion of the Bubl of England be withheld until the applicant's chaque has been paid or CHAPS payment received and, where required, qualifactory evidence of identity but been received. In the event of such applicant's againfactory evidence of identity has been received. In the event of such withholding, the applicant will be notified by letter by the Bank of England of the to of his application and of the amount of Stock allocated to him, subject in each case to the payment of his cheque or receipt of his CHAPS payment, or to

the receipt of attisfactory evidence of identity as appropriate, but such notification will confer to right on the applicant to transfer the Stock so allocated. Certificates will be sent by post at the risk of the applicant.

24. No sale will be made of a less amount than £1,000 nominal of Stock. If an

application is satisfied in part only, the excess amount paid will, when refunded, be remitted by choque despetched by post at the risk of the applicant; if an application is rejected the amount paid on application will be returned likewise. Non-payment or presentation of a cheque or non-receipt of a CHAPS payment on the date in respect of any Stock sold will render such Stock liable to forfeiture. Interest at a rate equal to the London Inter-Bank Offered Rate for seven day deposits in starting ("LIBOR") plus 1% per straum may, however, he charged on the amount payable in respect of any Stock for which payment is accepted after the due data. Such rate will be determined by the Bank of England by reference to

due data. Such rais will be determined by the Bank of England by reference to market quotations, on the due date for such payment, for LIBOR obtained from such source or sources as the Bank of England shall consider appropriate.

23. Subject to the provisions governing membership of the CUO Service, a member of that Service may, by completing Section 3 of the application form, request that any Stock sold to him be credited direct to lds account in the COO on Thursday, 26 September 1996 by means of a member-to-member delivery from an account in the name of the Governor and Company of the Bank of England. Number 2 Account. Pallure to accept such delivery by the deadline for member-to-member deliveries under the rules of the CGO Service on 26 September 1996 shall for the purposes of this prospectus constitute default in due payment of the

shall for the purposes of this prospectual constants default in due payment of the smooth payable in respect of the reservant Stock.

26. Application forms and copies of this prospectual may be obtained by post from the Benk of England, New Issues, Southgate House, Southgate Street, Gloucester, GL1 1UW; at the Central Glins & Moneymarkets Office, Bank of England, Threadneadle Street, London, ECCR 8AH or at any of the Branches or Agencies of the Bank of England; at the Bank of Ireland, Moyne Buildings, 1st. Floor, 20 Callender Street, Belfast, BT1 5BN; or at any office of the London Stock

The Stock will be specified as a gilt-edged security for the purposes of Schedule 9 to the Taxation of Chargeable Gains Act 1992. Accordingly, disposal of the Stock will not give rise to a chargeable gain or allowable los for the purposes of capital sains tax.

aged securities which are not strips are not "relevant discounted ties" for the purposes of Schedule 13 to the Finance Act 1996. Thus, for a holder of the Stock who is neither trading in the Stock nor within the charge to corporation tize in respect of it. United Kingdom income tax arising in relation to holdings of the Stock will generally be limited to income tax on interest received or, in certain circumstances, accound.

For a holder within the charge to corporation tax, a holding of the Stock will be a "loss relationship" to which the provisions of Chapter II of Part IV of the Finance Act 1996 will apply.

Attention is drawn to the statement issued by Her Majasty's Treesury on 29 May 1985 which explained that, in the interest of the orderly conduct of fiscal policy neither Her Majesty's Government nor the Bank of England or their respect member her majerry's coverament nor too Bank of England or their respective servants or agents undertake to disclose lax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, this Stock is Issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any o to make such disclosure; and that such emission shall per transaction liable to be set aside nor give rise to any claim for compensation.

BANK OF ENGLAND

APPLICATION FOR Complete Section 1 or 2 plus Sections 6 and 8	M was seen and	(union Section 3 applies)	LINSTITUTIONS ONLY	(If not the	héison(s) ja sacajon gj ITP OA VIALTÍCAM (12)	1.11 2.11	4
Complete Section 1 or 2 plus Sections 6 and 8.	26cdess 2' 4' 3 mm 12	A Comment of the Comm		FORENA	MEIS) AND SURNAMEIS	*DDKRZZ (including postcode)
should also be completed where appropriate.	RANK OF FNGLAND	Name of Regulator					
		Marphantin/Reference Number		~ <u> </u>	<u>':::</u> '		
We apply in accordance with the hands 1996 as for mon-competitive bids dated 17 September 1996 as for	31.0 date.					· . · ·	
· · · · · · · · · · · · · · · · · · ·	74.	Country/Territory of Regulator		——— ————	<u> </u>	· :	* -
FUR COMPETITIVE BIDS ONLY							
the time Short to be perchased at the print out print	GUIDE ENERGEL)		OMPLETED BY APPLICANTS ACTI	NG ME	REGIST	RATION DETAILS	
See notes (a) and (b) below.	· 中国	AS AGENT FOR ANY THIRI	PARTY	Stock	may be regimened in the m	mes of individuals o	r a corporate body.
	4	(anies the applicant is a OSO)	number or is a UK or BEA regulated finan			• •	
Nominal amount of Sta Treasury Stock 2021	4	institution, and Section 3 or 4 his Pull name and permanent address		CAPITAL	LETTERS PLEASE:		
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Price bid per £100 notainal of Stuck, being a	8			_	1	<u> </u>	
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PLLS accrued interest at the rate of £2.43288	2 48 288/13			, 			- 1
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Improved techniques and collection schemes have led to a surge in carton recycling, says Greg McIvor

Recovery package

one of this century's Around 110bn liquid beverage cartons (LBCs) are produced globally each year and the number is growing fast. In Europe, the market is projected to expand by 8 per cent a year into the next

But spreading waste mountains have prompted criticism from environmentalists. Only a fraction of LBCs are recycled; most are dumped in landfills or incin-erated. The inability of governments, municipalities and producers to evolve effective collection systems has been the prime sticking point.

But this is changing. New recycling technology and the introduction of pioneering collection schemes have prompted a

household dustbins. Some 12 per cent of cartons in Europe are recycled, a proportion which is steadily growing.

A joint venture launched this

year between Finland's two largest forestry companies, UPM-Kymmene and Enso, aims to recycle 70,000 tonnes of collected cartons annually to produce industrial coreboard for use as paper and textile rolls.

The collaboration, known as Corenso, relies on imported cartons. These come mainly from Germany, the only EU state with an effective nationwide collection system, but also from Belgium

A big advantage of recycling LBCs is the quality of the fibres; cartons contain no filler materials or colours because printing is

rinks cartons rank as sharp rise in the proportion of done directly on to the thin outer one of this century's LBCs recovered from Europe's layer of polyethylene.

tunity," says Matti Salste, direc-tor of environmental affairs at Enso's packaging boards division. "Liquid beverage cartons yield a better fibre than the birch pulp we had been using. And because is recycled it is cheaper." Carton-based cores are lighter

and thinner than traditional cores, he says, but keep their strength. Euso believes the added properties will not only lift its environmental profile, but boost its coreboard market share. LBC recycling takes place in 10

European countries, including the UK, France, Sweden and Italy. The US, Australia and Japan have reprocessing facili-ties. End-products range from toilet tissue and office papers to



Corenso's plant, built at a cost of FM70m (£10m), is the newest and most advanced in Europe. It operates on a "closed loop" and works like a giant washing machine. Rotating drums separate the pulped cartons from their polyethylene lining using sure. The fibre is sieved out and reprocessed. Polyethylene and aluminium foil residues are incinerated, providing the plant's entire energy requirement. According to Corenso, emissions apart from carbon dioxide and

Enso is discussing building a of recovered LBCs has risen from board machine in Germany using similar technology. The mill has. also insuired moves in Finland to establish a nationwide collection system for used LBCs, a scheme which aims to recycle 20 per cent of the country's total LBC consumption within five years. Lyn Trytsman-Gray, director-

general of the Alliance for Beverage Cartons and the Environat, a Brussels-based lobbying group, says developments in recycling have been driven by Germany's proactive approach to zero to 50 per cent since 1990) and by the EU's packaging directive. This states that member states must recycle 25 per cent to 45 per cent of household waste and recover 50 percent to 65 per cent

The success of LBC recycling is likely to hinge on the implementation of the directive. Salste sugzests there is sufficient capacity to recycle the entire 1m tonnes in Europe each year, but "for different reasons the companies are not keen on using it". For instance, they prefer recycled

fibre from cheaper sources, such as waste paper. An additional hurdle is that the high fibre content of LBCs makes them popular as fuel. In Denmark, the cartons are inclnerated at municipal heating plants. In Finland, LBCs are used to fire saunus.

Tetra Pak, the Swedish company which pioneered LBCs and today accounts for almost half the world supply, says recycling has been slow to take off because of lack of co-ordination between manufacturers, local authorities and end-users.

Teresa Presas, Tetra's director of external and environmental affairs in Europe, says the contacts are only just beginning to develop. "It is entirely new. Industry has never had [such] a dialogue with local authorities, and producers have never had a dialogue with waste managers. But it is happening now."

Tetra Pak believes municipali-

ties should be responsible for collection and some funding, producers should provide additional financial backing and consumers should be responsible for waste separation. The company does not believe producer accountability extends to participation in waste management, although it acknowledges different solutions can fit different countries. In Sweden, Tetra Pak part-owns one of the largest planned packaging recovery companies in the country's pascent recycling system.

About 30 per cent produced here used to go straight on to a skip," says Philip Wolfe. "We needed to obtain a much higher

throughout and vield." Wolfe is managing director of High Wycombe-based Intersolar, which took over a solar panel factory at Bridgend, Wales, in 1993 and spent 18 months making it run better. After a production, its yield of functioning panels has risen to between 90 per cent and 95 per

Developing new applications for solar power depends crucially on reducing the costs of installing it. Increasing the light-conversion efficiency within solar cells is one way to do this, but companies in the photovoltaics (PV) industry are also stepping up efforts to improve their process and manufacturing techniques. "If the market is going to open up. the key is manufacturing," says

The dream for PV companies is

to create a virtuous circle where the costs per watt of installing solar power continue to fall, boosting demand and justifying investment in larger factories mass production techniques which the industry cannot yet exploit - further reduce the cost.

Progress has already been made. Years of experience in production, along with continuing research and development work, have driven down the total cost of PV ems from tens of the of dollars per watt in the 1960s to about \$6 today.

A recent survey of 10 US companies in the \$118m US Photovoltaic Manufacturing Technology Project, partly funded by the US government. found that the weighted average cost of manufacturing PV modules - solar cells or panels complete with frame, glass protection and junction box had fallen from \$4.50 per watt in 1992 to about \$2.20 this year, while production capacity had risen by more than a factor of six. These figures, however, are based only on the costs directly

Light thrown on solar panel manufacturing

Andrew Baxter assesses progress towards changing production processes and reducing factory costs

marketing, sales and

On both sides of the Atlantic, PV module producers are focusing on the details of each stage in the manufacturing process, so that the overall efficiency can be improved and product costs reduced.

Intersolar is one of Europe's largest producers of thin-film silicon panels, in which a film of ellicon less than a micron thick is deposited on glass, sandwiched between layers of tin oxide and aluminium. Lasers are used to scribe lines on to the surfaces to create the

The process uses much less raw material than the more

traditional method of growing a single crystal or ingot of silicon, cutting it into wafers and building up solar panels by linking individual cells togeth But the indirect costs of production for thin-film manufacturing are high, and maximising output from the machines used in the process is a

Much of the hardware at Bridgend remains unchanged from 1993, but new software, muck of it developed in-house has been tustalled to mouttor the process better. The priority has been to get the proces running correctly from the start as it is difficult to test the panels on the production line. A typical problem in the past, says Wolfe,

key to reducing overall costs.

was an insufficient vaccous to the deposition chambers - air would get in and cause contamination. A gas analyses has been installed in the metalliser which deposits the aluminium backing layer, to check on contamination. The changes in equipment, and

in the production philosophy, have reduced the total costs of Intersolar PV modules from about \$2.75 per wait when it bought the plant to \$2 today. The total average power from one batch of 24 panels has risen from 260W to 320W.

Wolfe's target is to get total costs for a PV module well below \$2 a watt next year by increasing the plant's annual output to SMW from the original IMW.

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split in the form of the free share distribution of shares on 15th November. 1996 to shareholders of record as of 30th mber, 1996 (Japan time) in the ratio of 0.1 new share for

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This will be achievable by getting 2½ times as much panel area produced in a given time, and slightly increasing the efficiency of the solar cell.

In the US, the world's largest mannfacturer of solar cells and modules, California based Siemens Solar, has put its 25MW a year factory through a similar "reformation" process. The Camarillo plant uses the single-crystal technique, and costs have been cut in all four stages of manufacturing - ingot growth, wafering, cell brication and module fabrication.

Farther savings are foreseen: for instance, by reducing the water thickness to increase the wafer yield per ingot length, and overall the process has the potential to achieve module below \$2 per watt, says the

Siemens Solar and other US PV monnfacturery have also benefited from the PVMat project, which was designed to help the industry improve

One project for improving the single crystal process looked at

waste when wire saws are used to cut the ingot into wafers. "It is like a cheese grater," says John Benner, director of the NREL's Center for Photovoltaics and Electronic Materials in Colorado. "You lose iess silicon by making the wires thinner. But as you do it, the potential

for breaking the wire rises." Some economies of scale will emerge over the next lew years as the Camarillo plant is expanded and suppliers such as Intersolar build new plants.

But the search for lower costs is unlikely to end there. Wolfe can "see a route" to reducing costs to 50 cents per watt, at which point solar energy would be generating electricity at UK pool prices.

That would require a plant with a capacity of 500MW a year, more than five times larger than the current world solar energy market. If plants were ever to reach that size, it would imply that the total market was measured in gigawatts (thousands of megawatis)

This is part of a continuing series. The previous article appeared on

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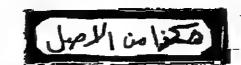
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ip O'Neill, the late,

great Speaker of the



Television in the US/Jurek Martin

House of Representa-The politics of going local tives, is already in every dictionary of quotations for once saying "all politics is local." That is true to an infinite degree when it comes down to American presidential

elections and television. are broadcast for a national One glittering example already stands out this year. Bill Clinton got saturation coverage out of a campaign manager's wildest dream - and at virtually no cost - of his brilliantly executed train ride through the midwest en route to the Democratic convention in Chicago last month. It did not matter that reporting on the national networks was reduced to two or three arch ginia are a different matter but. minutes a night. To TV stations beyond the immediate Washingin the likes of Chilicothie, Wyanton suburbs, they are served by dotte and Kalamazoo, the pres-ence of a president in full song different stations.) was the story of the month and

Oddly enough, Washington, DC, whose only real industry is politics, is just about the worst place to feel this. The capital has its resident talking heads coming out of our tubes like an army of hydras, but their sophistries

worth milking for all it was

audience and available everywhere. The local problem is that this is a one party town - Democratic presidential candidates routinely get 80 per cent of the vote on the first Tuesday in November - which means there is little point in winners or losers pouring advertising or other money down a one way drain (neighbouring Maryland and Vir-

Still, here as elsewhere, the output of local TV news dwarfs that of the national commercial networks. The Big Three offer a half hour programme each night (reduced to 22 minutes by com-mercial breaks). Local stations go live as early as four in the afternoon and witter on for two or three more hours before giving way to the networks. That is

a lot of air time to fill, unless there has been a particularly notional audiences, the voting the commercial networks fear gruesome serial murder, or a public. hurricane is passing through or the local football team has won a game it was not expected to. Ralph Nader, running for the Green Party, reckons he can get on as often as he wants without paying a cent for commercial time and he is probably right.

Changes in technology have also made local TV much more mobile than it used to be. A mini-cam, a cellphone and a cut price air ticket can send a local TV reporter anywhere in the country - to primaries, conventions and debates - thus further reducing reliance on feeds from the networks to which they may be affiliated. The proliferation of cable channels (about 60 are the dispersal effect, as well as adding to the daily forest of cameras and boom-mikes that

press feels it is losing its gatekeeper role of what is fit to print TV outlets to fill any void. to the tabloids - the downfall of Dickie Morris, Bill Clinton's toesucking political strategist, merely being the latest case in point - the same is true in the electronic media. Once a lifting of the left eyebrow by Walter Cronkite, the retired CBS doven, could set the tone for TV coverage, but now Larry King Live on CNN, small audience and all, is where news is as likely to be

Not that this is all bad. It may have been true that during the San Diego and Chicago conven-tions local stations were mostly intent on showing their cities in the best possible light but there was still room for some decent analytical reportage. And if the

obscure candidates from their local stations do not do it - and for their ratings if they devote . If the heavyweight writing too much prime time to politics - then there are plenty of other

> olitical junkies, for example, get up each morning and thank C-Span. Its two cable channels are contractually obliged to broadcast live proceedings in House and Senate when they are in session and fill up time with political talk when they are not. It also covered, from gavel-to-gavel, both conventions with minimal punditocratic intervention, versus the hour a night offered by the networks, much of it devoted to "the big speeches" and its own and imported analysts. (To be fair, NBC also went into convention partnership with the Public Broadcasting Service's wholly

admirable anchorman, Jim Lehrer, and offered a far more thoughtful service to viewers than the frenetic "here I am with the Alabama delegation" CNN.) It is not easy for the old net-

work heavyweights to accept a reduced role. One of them, Ted Koppel, anchor of ABC's Nightline, left San Diego in a huff proclaiming of the tightly scripted-for-TV convention "there is no news here." He may have been right but the arrogance - if only in a minor key by Paxman's standards - did nothing for the reputation of the media, if it has any to preserve.

The networks, though not, naturally, Murdoch's, are also having some difficulty coming to terms with a proposed innova-tion designed to allow candidates to communicate directly to the public without the intermediation of anchors or ad-men. Paul Taylor, formerly of the Washington Post and with the backing of Cronkite among others, wants them to set aside two minutes of free prime time a night in the last month of the campaign for plain talk from Clinton, Bob Dole and, perhaps. Ross Perot and even others. As of last week. he was still "in negotiations."

What TV is only too happy to accept - because they are paid for - are political commercials. There is a school of thought which believes this year's crop is less negative than 1992 or 1988. the worst year for attack advertising in living memory, but the improvements seem strictly relative. And even if some of them have been saying "vote for me" rather than simply "don't vote for him because he is a liar, thief and knave," the betting is that they will get dirtler as election day looms.

But at least there will be the televised debates - three for the presidential candidates, one for their running mates - and that can make for compelling viewing capable of deciding the election if it gets closer than it is now. Mind you, they do coincide with the climax of the baseball season where literally everything, not just politics, is local.

Theatre/Alastair Macaulay

Dreams and nightmares

speare Company would usually be simply splendid, were it not for (a) its actors (b) its directors. Most of the texts it performs are, of course, first-rate; its designs are often adequate, good, or excellent; and the problems it has with musical accompaniment (too much, too filmlike, too amplified) are by no means unique to it.

The two productions now at the Barbican Centre are quite dissimilar. Adrian Noble's production of A Midsummer Night's Dream, a bright and bubbly affair, has been a hit since it was new in Stratford in 1994, and is now (with a new cast) enjoying a second London season, in the main Berbican Theatre, after a triumphent. American tour and after being filmed. Michael Bogdanov's two-part production of Howard Brenton's modern version of Goethe's Faust, flashy and sour, divided opinions when new in Stratford last year, and has now arrived at the Pit.

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artistic director, seems to have developed the same policy in his own stagings of most heart-warming and Shakespeare that Anthony Dowell has with classic ballets at the Royal Ballet: make sure the designs carry the show. Fortunately for the RSC, Noble has good taste in designers. A few seasons back, Anthony Ward designed for Noble a hit staging of A Winter's Tale primarily memorable for its balloons; here, he has designed a Dream whose most haunting features are a hanging forest of glow-worm lightbulbs, doorways without walls and a suspended bed-size umbrella. Beautiful but these designs are a

show in themselves. Like every Dream I have ever seen, this one treats Helena and Hermia, with all their heartbreak, as figures of fun. The classic quartet scene of lovers' quarrels is geared entirely to the pace of its physical comedy, with job of a convenient all-white

he Royal Shake- the words only sometimes lending support. This bothered me in 1994; it does so more now, with Katy Brittain playing Hermia with the most exaggerated thry-baby voice since Sara Crowe. Rebecca Egan's too cute Helena has slightly less sincerity than when she played the role in Regent's Park two years ago. It is not that Noble has encouraged his actors to ignore the text; but he asks them to help it out so busily that it seldom has time to speak for itself.

Ian Hughes plays both Puck and Philostrate with too much emphatically actor-ly self-regard, Leigh Lawson ponderously forces the diction of both Oberon's and Theseus's lines, and Amanda Harris, handsome to the eye and exemplary in projection, only makes incidental points in the roles of Titania and Hippolyta.

The freshest, most multifaceted, part of this production's casting is now its team of ruds mechanicals. I had thought Christopher Benjamin would be too much the Adrian Noble, the RSC's old thesp to succeed as bully Bottom; in the event, his expansiveness is here at its sums up just how life-enhancing Bottom is. Like him, the other would be Athenian actors of the Pyramus and Thishe 'scene are all figures now charishable, now ridicalous, new touching.

Howard Brenton's version

of Faust sells Goeths very short, framing the action with "rebearsal" episodes in which "the Poet" disagrees with "the Director", and Michael Bogdanov's staging sells Goethe yet shorter. The Director tries to get away with ending the action with Faust's death and final submission to Mephistopheles; whereupon the Poet intervenes and restores Goethe's ending, with Faust redeemed by Gretchen and taking his place in heaven amid flights of angels. Goethe's sublime finale is made here to look



Walpurgisnacht (into which, contrary to Goethe, Gretchen is made a victim) is full of leather, dildos, masturbation, and so

forth. Coarse stuff. At the centre of all this is the Faust of Michael Feast. You can see why the RSC casts this actor in intellectual-in-crisis roles. It is that Dürer skull-like face, that cerebral manner, and that ascetic Enoch-Powell-cum-Roger-Scruton voice. But Feast works principally to draw attention to his physi-cal and vocal skills. He is a breath of fresh air by comdeliberately trite, a rushed

happy ending. The big not believable, whether he is entering as old Faust, exaggeratedly dragging his feet, throwing down his books, swigging some whisky, and coughing, or is pretending to be the rejuvenated Faust, with a shimmving cityslicker gait. And - whether he is stringing three sentences together in one breath, or tracing pointless vocal rises and falls in midphrase - he is merely very artful. Hugh Quarshie's Mephistopheles, genuinely charming even as he obviously turns on the charm, is

parison; and so is Sophie Heyman's radiantly fresh, vital Gretchen.

This Paust is a year old, and has presumably been revised. It is too much, admittedly, to wish for revisions to its seldom felicitous use of rhyming couplets. ("These relics are unique/ Enough to make an antique dealer weak"). But what excuse does it have for having Faust say "this companion with whom I cannot live without

In RSC repertory at the Barbican Centre

Opera/Richard Fairman

Giovanni in the fast lane

here is just one stumbling-block, so let us get that out of the way first. For one Don Giovanni turns up in drag. Yes, that cliche again - a Don Giovanni in sequined evening gown and fur stole has become as predictable as King Lear the comedian and Macbeth the Scottish social worker.

It is just something modern opera producers have to get out of their system. So now that Katie Mitchell making her debut in opera with this new production of Don Giovanni for Welsh National Opera, has got it out of hers, she can hopefully go on to a successful carear in an art-form for which she seems to have an inpate talent. There are plenty of old bands who would be glad to have delivered a *Don Giovanni* as fresh and engaging as this

A week or two after one of the Godfather films came round on television again, there is no missing her point. Updated to the postwar period with a suggestion of gangaters and godliness somewhere on the Mediterranean, the moral issues in Mozart's opera take on a keen edge. Mitchell handles

ple, atmospheric sets by Rae Smith and breathing new life into the characters.

By the time the rehearsal period was over, each member of the cast had an identification with their roles. Don Giovanni is a moral vacuum a hit-man who enters with a stocking over his face, challenges a man to a fair fight and then produces a con-cealed knife. Davide Damiani does not quite make the character develop, but sings with authority, even if he does not sound very seductive when he goes courting.

n Mitchell's hands Zer lina and Masetto make a particularly touching couple. A world of innocence teetering on the brink of corruption goes across the face of Catrin Wyn Davies's winning Zerlina, as she vacillates between Giovanni's evil clutches and her Masetto, played with disarming naturalness by Davide Baronchelli.

Very little of the singing is emotionally neutral, certainly not Cara O'Sullivan's fearsome "Or sai chi l'onore" and she makes a stylish job of Donna Anna's second aria too, despite some lack of body to the voice. Alwyn Mellor struggles a little with "Mi tradi", but her Donna

freely-produced fine. soprano. As Don Ottavio, Gwyn Hughes Jones gives notice that he should do well in the bel canto Italian repextoire, where Mozartian finesse is not needed.

Arwel Huw Morgan's friendly, bespectacled Leporello and Anthony Stuart Lloyd's less than superhuman Commendatore completed a cast with more strengths than weaknesses. It was kind of Carlo Rizzi to make sure that these last two could be heard over the orchestra in the last scene. His conducting is generally quite noisy and drives the drama headlong after the Italian style, the sort of Moz-art that would not dare venture near Vienna.

Some people may object to that, but his sizzling energy adds to a Don Giovanni whose characters are living very much in the 20th century's emotional fast lane. If the singers complain that they cannot get round the words at his speeds, they should think of the exercise as musical aerobics. A run of performances like this will do their patter in Rossini no

Sponsored by Associated British Ports Holdings plc. New Theatre, Cardiff, until

Lottery benefit for Magna Carta

of Jacob the conversion of some of its Epstein's most monumental sculptures, "Jacob and the Angel", permanently enters the Tate Collection today, thanks to a £375,000 grant towards its 2500,000 cost from the Heritage Lottery Fund. The 2.4m by 1.2m slabaster work, carved in 1940, had previously been on temporary loan. In the year 2000 it will form part of the permanent collection in the new Tate Gallery of Modern Art at Bankside.

In all, the fund announced 44 more grants yesterday totalling £4m. Among the more far reaching is a grant

catalogues, currently only available in print, to automated format, enabling them to be held and searched on the computer. Scholars around the world will be able to study and compare texts without leaving their desks. Among the papers to be converted is Magna Carta. Among the works of art

taken into permanent public custody are a drawing by Gainsborough of his two daughters, which goes to the Gainsborough Museum in his native Sudbury; and the Estorick Collection of Modern Italian Art which, thanks to a £550,000 grant of £358,000 for the British towards a £1.1m project, Library, which will finance moves 80 works by such

Severini and Russolo into the unlikely home of Northampton Lodge, a Georgian building which overlooks Canonbury Square in Isling-

Among numerous grants to help restore steam locomotives is one of £20,000 for the "Princess Elizabeth Society," which will repair this 1930s locomotive, one of only two still in existence. In 1936 the "Princess Elizabeth" was used on a record breaking run between Glasgow and London to test the feasibility of non-stop inter-city travel.

> Antony Thorncoft

INTERNATIONAL

ANTWERP

De Singel Tel: 32-3-2483800 CONCERT Pieter Wispelwey: the cellist performs Britten's Suite No.1 in G, Op.72, Suite No.2 in D, Op.80 and Suite No.3 in C, Op.87; 8pm;

BERLIN

CONCERT Philhermonie & Kammermusiksaal Tel: 49-30-2614383

Stidwestfunk-Sintonleorchester: with conductor Hans Zender and violinist Christian Tetzlaff perform works by Schoenberg and Brahms; 8pm; Sep 20

OPERA Deutsche Oper Berlin Tel: Galathee, die Schöne: by von 49-30-3438401 Suppé/Wahren. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Kirsten

Blarick, Heldi Person and Peter Edelmann: 8pm; Sep 19

BRUSSELS

Théâtre Royal de la Monnaie Tel: 32-2-2291200 Katerina Ismailova: by Shostakovich. Concert performance, conducted by Valery Gergiev and performed by the Orchestra and Choir of the Kirov Opera; 7pm; Sep 19

COLOGNE EXHIBITION

Römisch-Germanisches Museum Tel: 49-221-2214438 Tu Felix Agrippina: this exhibition features images of members of the family of the Roman Emperor Augustus. Amongst them is Agrippina, who founded the city of Cologne. Exhibition on the occasion of the 50th anniversary of the Römisch-Germanisches Museum; to Oct 27

OPERA Opernhaus Tel: 49-221-2218240 Otelio: by Verdi. Conducted by James Conlon and performed by the Oper Köln. Soloists include Frederic Kait, Hillevi Martinpelto and Ned Barth; 7.30pm; Sep 21

COPENHAGEN CONCERT

Twofi Concert Hall Tel: 45-33 15 Die Jahreszeiten: by Haydn. Performed by the Danish National Radio Symphony Orchestra with

conductor Ulf Schirmer. Soloists Include soprano Ruth Ziesak, tenor John Mark Ainsley, bass Johannes Manov and the Danish National Radio Choir, 8pm; Sep

> DANCE Det Kongelige Teater Tel: 45-33 69 69 69

Romeo and Juliet: a choreography by Ivo Psota to music by Prokofiev, performed by the Royal Danish Ballet. Soloists include Rose Gad and Martin James; 8pm; Sep 20

EDINBURGH

EXHIBITION Scottish National Portrait Gallery Tel: 44-131-5568921

David Roberts RA: A Bicentenary Display: exhibition on the occasion of the 200th anniversary of the birth of the Scottish artist David Roberts (1796-1864). His determination and courage in exploring parts of Morocco, Egypt, Syria and the Holy Land that had rarely been visited by Europeans before, set him apart from his contemporaries and brought him lasting fame. Focused on Robert Scott Lauder's flamboyant portrait

FRANKFURT AM

of Roberts in Eastern dress, the

memorabilia; from Sep 20 to Nov

exhibition includes paintings,

photographs, medals and

OPERA

Städtische Bühnen Oper, Ballet, Schauspiel Tel: 49-69-21237444 Samson et Dalila: by Saint-Saëns. Conducted by Sylvain Cambreling and performed by the Oper Frankfurt. Soloists include Margit Neubauer, Hubert Delamboye and John Bröcheler; 7.30pm; Sep 19, 21

■ HAMBURG OPERA

Hamburgische Staatsoper Tel: 49-40-351721 Le Nozza di Figaro: by Mozart. Conducted by Stenz and performed by the Staatsoper Hamburg. Soloists include Studer, Bayo, Llang and Fredricks; 7pm;

LONDON

Sep 20

CONCERT Wigmore Hall Tel: 44-171-9352141 Ivry Gittis and Ana-Maria Vera: the violinist and planist perform works by Hindemith, Beethoven and Bartók, 7.30pm; Sep 19 EXHIBITION

Courtauld Institute Galleries Tel: 44-171- 8732526 • The Four Elements: this exhibition draws together prints and drawings from five centuries to show the Four Elements - Fire, Water, Earth and Air - in mythology and real life. Included are works from the museum's collection by Manet, Dürer, Guercino, Bruegel, Gauguin, Hieronymous Bosch, Guardi, Rowlandson, Turner, Samuel Palmer, Constable, Piranesi,

Tiepolo and others; to Sep 22 Tate Gallery Tel: 44-171-8878000 ■ Mark Rothko in Cornwall: this exhibition includes works of the post-war American artist who created Abstract Expressionism. The Mark Rothko display is

shown in relation to a number of paintings by other artists of that period already on display at the Tate Gallery, such as Franz Kline; to Nov 3 The Hayward Gallery Tel: 44-171-9604242 Antony Gormley: Field for the

British Isles: exhibition of "Field for the British Isles", made by Antony Gormley with the people of St Helens in Merseyside. Over 35,000 small terracotta figures, each different and varying slightly in size and colour, fill the gallery wall to wall; from Sep 19 to Nov

■ NEW YORK EXHIBITION

The Equitable Gallery Tel: 1-212-554-4818 Henri Cartier-Bresson in America: exhibition devoted to photographs taken in the US by the French photographer Henri Cartier-Bresson. Comprised of over 100 works selected by Cartler-Bresson himself, the exhibition spans four decades from 1935-1975; from Sep 19 to

The Pierpont Morgan Library Tel: 1-212-685-0008 A Fine Line, Rembrandt as Etcher: exhibition featuring more than 100 etchings by Rembrandt from the Morgan Library's collection; from Sep 19 to Jan 5

OPERA

New York State Theater Tel: 1-212-875-5570 Der Rosenkavaller, by R. Strauss Conducted by George Manahan and performed by the New York City Opera. Soloists include Elizabeth Holleque, Gwendolyn Jones, Nancy Allen Lundy, William Fleck, John Fowler and Stephen Powell; 8pm; Sep 19

PARIS EXHIBITION

Centre Georges Pompidou Tel: 33-1-44 78 12 33 Fréderick J. Klesier: retrospective exhibition devoted to the architect/artist Frederick Kiesler (1890-1965). The display gives an overview of his architectural designs and ideas and shows a selection of his

paintings, sculptures, installations,

stage designs and other works; to

■ ZURICH

OPERA Opernhaus Zürich Tel: 41-1-268 6666

 Il Matrimonio Segreto: by Cimarosa, Conducted by Adam Fischer and performed by the Oper Zürich. Soloists include Malin Hartelius, Isabel Rey, Anton Scharinger and Steve Davislim; 7.30pm; Sep 20

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business and the

financial markets

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CNBC:

08.30 Squawk Box

10.00 European Money Wheel

18.00 Financial Times Business

Toniaht



Ian Davidson

Showdown time

If the French force the pace on EU reform, it will raise issues the UK Labour party is ill-equipped to deal with

The French are pressing for an acceleration of the time-table at the intergovernare talking of changing the mental conference which is discussing the reform of the electoral system to a form of European Union. If they get proportional representation their way, the showdown that might stop the left winover the future shape of the ning a majority. But Mr Chi-Union will come before the end of this year. This will be bad news for John Major, the UK prime

rac's main response is to speed up the intergovernmental conference with the aim of ratifying a new treaty in the second half of next year, well before the minister, because it will mean that he probably cannot avoid a decisive crisis elections. And if the treaty between the UK and its must be ready by the middle European partners. But it of next year, consensus over the changes must be may be almost as bad news for Tony Blair whose reached at the main Dublin Labour government-in-waiting could find itself summit in December. The French say they would be prepared to agree having to pick up the pieces

after the general election. a more modest agenda in Mr Blair is popularly sup-posed to be more proexchange for faster prog-ress. But their "scaleddown" list includes progress European than Mr Major, and by instinct he may be. towards a common foreign Yet Labour's policies in and security policy including defence; closer co-operapractice are virtually as tion on justice and home anti-European as the Conaffairs; more majority voting in the Council of Minisservatives' - in some cases. more so. The result is that a ters; and a new "flexibility Labour government would be unprepared to deal with formula" to permit closer the issues that will arise next year if the French integration of an inner core of member states. Whether there is any bring matters to a head.

The reason for the French urgency is that Mr Jacques Chirac, the president, fears his European strategy could be thrown into jeopardy by the French parliamentary elections in the spring of 1998. If his conservative government were to lose its majority in the National Assembly, he might be unable to ratify a new Euro-

pean treaty. But the situation could get worse if there were to be no significant fall in French unemployment and the socialists and communists won a parliamentary majority. They might demand a reopening of the terms of economic and monetary union before the starting date for the single currency on January 1 1999. This could amount to a repudiation of long-standing French demands for Emu and the FrancoGerman strategic alliance.

Some French conservatives are so alarmed they

moot point. The intergov- Europe, it will be difficult. This is because the party's position on Europe is and has yet to move beyond vague generalities.

But if the French succeed in bringing the process to a head, it may concentrate the minds of the majority of member states on the search for compromises. But since Mr Major's Conservative party will prevent him from agreeing to any significant treaty change which. would lead to closer integration it would also mean a confrontation between the UK and the rest.

There was a time when France and Germany were ready to postpone such a confrontation in the hope that an incoming Labour government would be easier to deal with. Now, it appears, they no longer expect Labour to make any fundamental difference to Britain's difficulties with Enrope. And a new analygis* nublished next week by the Fabian Society, the Labour party think-tank,

suggests they may be right. The central assessment of Graham Leicester, a former Foreign Office diplomat, is that while Mr Blair may want to manoeuvre closer to timetable - may seem a Britain's main partners in



Friends or foes: Tony Blair and Helmut Kohl

chance of this agenda being

agreed at all - let alone

within France's urgent

uncomfortably similar to that of the Conservatives in detail and in general.

Mr Leicester's tally of the likely crunch issues in negotiations at the intergovernmental conference corresponds closely with the French agends. Only on majority voting and other institutional reforms does be think Labour has enough room to reach agreement with the European partners. On the search for a com-

mon foreign and security policy and on justice and home affairs, he judges Labour is at least as opposed to any further integration as the Conservatives. Since the French attach particular importance to the former and the Germans to justice and home affairs, this is not a good starting position. And Labour is even more hostile than the Conservatives to the Franco-German proposal for a "flexibility"

If Mr Blair wants to be in a position to forge European compromises when he comes to power, says Mr Leicester, he will have to prepare the ground for a accommodating stance. He must prepare his colleagues in the party, the British people and Britain's permers in Europe. With the French push for

a faster timetable, he needs to start these preparations soon. But there is no sign he has even begun. More-over, Mr Blair has not learned to speak "good European". His rhetoric is the old language of defend ing the national interest national sovereignty and the balance of power. It simply won't play in Paris or

*Burope After Major: Can Labour Make a Difference Fabian Society, 11 Dart mouth Street, London SW1B

LETTERS TO THE EDITOR.

Number One Scuthweek Bridge, London SEI 9HL

been to encourage letters from selders around to deport. Letters may be brief to +44 171-873 5936 (please set fax
fine 1 a mail: letters collectificant Published Sends are also available on the FT web site, http://www.FT.com
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attraction of From Professor Alex Duncan. language

Prom Mr Henry Mo. Sir, An International forum to simplify the English language's pronunciation and spelling? Despite his British-sounding name, Mr Selwyn Hodson Pressinger (Letters, September 13) seems to have more in common with Continentals and Eurocrats and their mania for dirigisme and harmonisation

of practices Any living language that experiences decentralised evolution will always have a degree of illogicality and inconsistency. (The only truly consistent language I can think of is Esperanto, and it is so because it was artificially constructed.) What is more, it strikes me that English has become so successful worldwide precisely because of its lexibility and receptivener to other languages influence.

If a commission were to codify the English language and set it in aspic, that would probably lessen its appeal. (Think of the absurdities of the French authorities vis-g-vis foreign borrowings.)

Henry Ma, University of Pennsylvania, 3718 Locust Walk, Philadelphia PA 19104-4017,

Access not in question

From Mr Matthew J. Turner. Sir, Perhaps Mr Tony Hales and his fellow industrialists (Letters, September 5) could explain what not being in Emu has to do with access to the single market? Clearly, othe European countries, in or out of Emu, gain as much from trading with the UK as the UK does trading with them. This proce beneficial to all, will continue whether or not Britain shares the same

Matthew J. Turner, 10 Bury Close, Cambs, UE

CUITEDCY.

Flexibility is | Food predictions too pessimistic

Sir, it may only be brave fools who counter Lester Brown's arresting predictions of disaster on world food markets ("World "heading for new food crisis", September 17). Completency would be a erious mistake where the

stakes are so high. But Mr Brown is in a long radition of pessimism on overall world food supplies and prices, a tradition in which he and others have consistently been wrong. and he needs to explain why he is right this time. The reality is an astonishing story of past success.

Grain prices on world markets have fallen greatly in real terms from 1860 to the mid-1990s, a trend interrupted (as at present)

by occasional short-lived violent spikes. Mr Brown is right that stocks are now so low that the present high prices will take more than one year to pass; but it is not clear that he is right about long-term prospects. The market is more

resilient than the pessimists think. A period of higher prices would, as we already see this year, cause resources to come back into grain production that were taken out previously as prices fell. The world's producers appear able to meet the challenge of raising production over the next 20 years in response to the increased demand that will certainly occur, provided that governments follow sensible policies on trade and pricing and provided

that they and the private sector combine to keep up investments in technology, skills and infrastructure. On the need for these actions Mr Brown, and even the most optimistic analysts, agree. More fundamentally, this

debate about production should not cause us to lose sight of the real food risks for the future. Hunger will continue to result mainly from failed economic development of nations, and the poverty of households. not primarily because of lagging production. Getting these right is the priority, along with safety nets for

Oxford Policy Management, Oxford OX1 3LA. UK

Korea exercises checks and balances

From Mr Sung Soo Park. Sir, The article "Kim: militant moderate or civilian dictator?" (September 2) by John Burton contained remarks which reflect a misunderstanding of democracy in the Republic of Korea and which distorted President Kim Young Sam's efforts to right the wrongs of recent Korean history and

mplement democratisation. Mr Burton depicted Korea's democracy as lacking the checks and pulsances of a matture western democracy and argued that immense power resides in the Blue House. the presidential mansion. The fact is that the Korean constitution clearly stipulates the separation of government power between the legislative, judicial and executive branches of the government, and checks and hedenous are exercised

The judicial branch is completely independent of the other branches of government. This is attested

to by the recent trial of two former presidents. In reporting the trial, the press abroad generally recognised the rule of law in the Republic of Korea, as well as the independence of the judiciary. Second, Mr Burton's

article questioned the special legislation under which the trial of the ex-presidents was held. The legislation was enacted by the National Assembly as the ex-presidents' slush funds surfaced. It became all too obvious that the case had to be brought to justice if the nation is to make progress and develop further. The legislation reflected an overwhelming national

Therefore, this special legislation is essentially different from what is known simply as a retroactive legislation.

Third, the article, referring to the unfortunate ends of his predecessors, said in effect that Mr Eim must worry about his fate after

his term expires. Mr Kim, the first popularly elected president of a civilian administration in the Republic of Korea, has implemented a policy of change and reform, curing the "Korean disease" (the symptoms of which included corrupt and irregular practices), and righting the wrongs of history. His accomplishments have been widely acclaimed both at home and abroad.

Any possible concern about his fate after the end of his presidential term is

Finally Mr Burton wrote that there are allegations concerning financial irregularities involving President Kim's son, Mr Kim Hyun-chul. The article referred to rumours which are completely groundless.

Song Soo Park, Embassy of the Republic of 4 Palace Gate. London WS SNF. UK

Trade-off should be price for backing US

From Mr Michael Mittenn. Sir, The letter from Willy de Clercq (September 16) about the impact of the Heims-Burton Act on world

restrained. It causes one to wonder whether the UK: government had the wit to demand some retreat by the US from this iniquitous law before going out on a limb with its unqualified support

for the attacks by the US on

Iraq. Michael Johnson 10 Avenue Road.

London N6 5DW, UK

Highgate,

inosaurs get hungry

US banks have seen nimble financial services groups run off with several parts of their core businesses in recent years.

Many customers who used to have high-interest cheque accounts have switched to the money-market funds offered by mutual fund managers, many of which offer cheque facilities. And the lucrative business processing credit-card transactions and electronic payment data has been scooped up by dataprocessing companies s as GE Capital and EDS.

But last week a powerful onsortium of 15 banks launched a counter-attack against the latest threat to their business - the arrival of the Internet as a medium for making payments. With software companies hoping to win a share of the growing market for such transactions, the banks announced the creation of Integrion, a new system for handling online commerce grandly described as a "financial ser-vices superhighway".

For the past two years software companies have made all the running in providing "home banking" allowing customers to make financial transactions through their personal comouters. In the process they have encroached on core-banking functions, such as paying bills and transferring funds between accounts.

Intuit a Californian software house, controls about 80 per cent of the home-banking market, giving it a long lead over integrion. Its Quicken programme is ready offered to cust by 37 banks, including Wells

It also developed a billpayment and processing sys-tem to work with its software - a potentially worry-ing development for the banks which see this as part of their core business. In what was seen as an attemp to soothe such fears, Intuit earlier this week announced it had sold its bill-payment subsidiary to CheckFree, a. company which already handes payments for banks.

US banks are fighting for a slice of the Internet payments business, says John Authers

But Microsoft, the world's largest software company, is also challenging the banks for the transactions business. Barlier this year it launched proposals for a common standard for transactions software that would work with its Windows oper-

More frightening for the banks was Microsoft's decision to develop a complete system for bill-paying and transactions with Visa Inter-national, the credit-card company. Mr Bill Gates, chairman of Microsoft, attacked the banks as "dinosames" - driving the banks to sit down with their rivals to-negotiate an alliance. The 15 banks in the con-

sortium have roughly half the household accounts in the US and Canada. "We are trying to hold on to our cusiers," says Mr Hugh McColl, president of Nations-Bank, the fourth largest in the US. "The real battle", he says, is for control of the electronic transactions infrastructure. He adds: "Microsoft says they want to con-trol that. If Microsoft controls it, that makes commodities out of all banks." The consortium includes International Business Machines, the world's larg-

Customers dialling in to Integrion will feel they are dealing with their own bank, not an anonymous computer services enterprise

which has so far failed to establish a bridgehead in Internet commerce. At the moment such transactions

generate revenues that are scarcely significant - total online commerce this year will be \$700m (£450m), according to Mr Lou Gerstner. IBM chief executive. Visa and Mastercard process payments to that value every 70 minutes, he adds. But with 48m US house holds expected to own PCs and modems by the end of the decade, the Internet has the potential to become the dominant medium for financial transactions.

"We expect the number of US home-banking users to grow 75 per cent annually until the year 2000," says Mr Deogo Teixeira of the Tower Group, a consultancy which analyses the home-banking business. To handle this demand, US commercial banks may be forced to grow their home-banking expenditures to over \$1bn by the year 2000."

By forming a joint venthe banks - each of which has invested "several million dollars" - will benefit from economies of scale. But most important, they will keep control of the transaction process itself, with the network receiving a

fee for each deal made on it. They will also be able to brand their own-products. Customers dialling in to integrion will feel they are dealing with their own bank, not an anonymous computer services enterprise

The banks believe this will allow them to exploit their main advantage, which is customer loyalty. Mr Gillespie claims they are already using their "high level of trust" to win back customers, helped by legal changes which allow them to offer a wider range of products and build up branch networks.

"If we are dinosaurs, I would suggest that today we are putting our customers on notice that it is a new breed that is evolving," says Mr Bob Gillespie, chief executive of KeyCorp, another consortium member, "one that intends to be led by a voracious appetite for building market share."

Integrion will publish open standards for the software which will be compatible with existing programmes from Intuit and Microsoft. The consortium hopes this will encourage smaller companies to write compatible programs. And to encourage banks, new consortium members will pay the same price for Integrion's services as the founders.

But the most critical issue is security. The banks know they must convince their customers that their bank records will be protected.

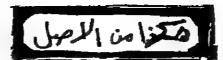
Integrion's answer is to offer users the option of using IBM's private network for their transactions. But several large banks have decided to stay out of the consortium because of the security issue. They include Chase Manhattan, which recently merged with Chemical Bank, Wells Fargo and Citicorp, the largest US

remail bank. The latter has been offering online personal computer banking since 1984. "We're monitoring it, but we aren't at the point where we're prepared to offer our customers transactions over the Internet," Citicorp says. "We need to make sure there are means to make them secure, and make sure our customers are comfortable." Mr Gerstner, who is pro-

moting IBM's private network, voices the fears many have about the Internet. He says: "It's like talking on a party line. But it's hardly a network you can feel good about doing secure financial transactions on.

Only if the banks can convince their customers that their system is safe will they be able to retain control over transactions that move into





FINANCIAL TIMES

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Lynch law for directors

California's love of the Proposition - better known to the rest of the world as a referendum to chill the non-Californian heart. However bizarre the proposal, it may still pass into law. And given California's position as one of the world's biggest and most innovative economies, its ideas may prove influential

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Proposition 211 is a splendid example. In essence, it aims to give investors the right to sue executives personally if the share price falls sharply. Investors would not be required to show that they were misled by executives' statements on the company's prospects, or were even aware of them. Companies would be banned from indemnifying executives against law-

Naturally enough, the proposal has caused near-panic in California's high-tech board rooms. The shares of companies in such high-growth industries as biotechnology or the Internet are naturally volatile. Often enough, they will fall abruptly and subsequently recover. This need not be a reflection on the companies themselves: it simply means that investors find it hard to assign a value to compa-nies with growth rates outside the normal range.

The reaction of professional neatly encapsulated by Mon-

There is something about day's hung vote from Calpers the Californian pension fund which - again, characteristically - is one of biggest invest ing institutions in the world. On the one hand, no pension fund especially in the militant public sector, as Calpers is - wants to pass up the chance of more shareholder power. On the other, Calpers does not want to see high-growth companies driven out of its back yard.

In political terms, the propos tion has a slightly tangled history. In essence, it aims to reverse at the state level last year's Federal measure the Private Securities Litigation Reform Act, which barred frivolous claims by investors. The Act was vetoed by President Clinton as withdrawing protection from the tyro investor, and his veto was then overruled by Congress, Now, to make the situation still murkier, the president has expressed opposition to Proposition 211

such a fundamental matter is undesirable. In general, federal legislation in the US is subject to such intense lobbying from all sides that the outcome tends to be even-handed. Californian propositions, such as last year's against illegal immigrants and the forthcoming one against affirmative action, are often nothing of the kind. If you are investors to the proposal is operating in California, watch

Loyalty for sale

British consumers' wallets are becoming fatter by the month; not with cash, but with loyalty cards from big stores.

The success of these schemes was attested yesterday by the first-half results from Tesco, the UK supermarket chain which launched its Clubcard in February 1995. Its profits were well ahead of last year, and its mar-ket share increased a percentage point to 14 per cent. This is comfortably ahead of its rival, J. Sainsbury which - like most big retailers - has followed Tes-

The advantage of being first in such a competition are more obvious than the benefits of joining later. When all stores reward fidelity, consumers can afford to be promiscuous, armed with a portfolio of cards for any shop that takes their fancy.

As happened when every retailer was trying to outbid its rival with inflated offers of Green Shield stamps, consumers may eventually become bored with "free" offers and return to shops which concentrate on providing service and

For retailers, however, loyalty cards have several advantages over stamps. They can be linked to distinctive bonuses and money-saving offers, in addition to a standard discount (which is l per cent in most cases). They can also provide the store with valuable data about the pur-

Provided that shoppers like the benefits and do not object to a system which records every bar of chocolate and bottle of gin they purchase, no great harm will be done.

However there is a danger that, despite the safeguards of the Data Protection Act, this mass of information on consumers' habits could leak across the networks into unscrupulons hands. Issues of civil liberty would be raised if, for example, insurance companies could visi the data to identify people whose purchases indicated an unhealthy lifestyle; or if the police could draw up a list of suspects by monitoring the purchase of specific items or unusual consumption patterns.

A more obvious anxiety is that the stores' competitive energies will be diverted into ever more flamboyant prizes and special offers, thus diverting consumers' attention from

run, quality and price.
It would be churlish to poop the party just as 20m shoppers are getting into the swing of their free holidays and moneyback vouchers. Even so, it is worth remembering that no economic law guarantees that computer power, which has brought such huge benefits to retailing will always be used in the con-

IGC timing

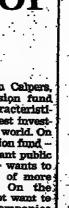
The latest ideas on EU foreign policy floated by Chancellor Helmut Kohl's Christian Democratic Union are a reminder how far the Union is, nearly six months into the intergovernmental conference (IGC), from reaching consensus on revision of the Maastricht treaty. It had been suggested that

consensus was within reach because Germany, the main proponent of a new leap forward towards political union, had lowered its expectations and would now be content with a minimal pump-priming exercise. That is true in that Germany no longer expects significantly increased powers for the European parliament; but the CDU paper shows that some influential Germans are still determined to integrate the union's common foreign and security policy (CFSP) more closely with the supranational community machinery, notably by giving a leading role to the Commission.

That would make sense, since the main levers which the EU has for influencing outsiders are trade and aid, already within inste against opters out. Also, a the Commission's competence. But it is strongly opposed by ment, of whichever party, will the UK and France, which both have more freedom of manoeuinsist that foreign policy remain strictly intergovernmental. France favours a separate CFSP secretariat headed by a politician. Britain seems willing to accept this so long as the Commission is kept out of it and by unanimous vote.

trating, not least for the candidate members which have been told negotiations with them can not start until six months after the IGC finishes. But hitherto it has been accepted that no deal can be struck until after the UK general election, now almost certain to be held next spring. The French, for reasons explained on the opposite page, are now questioning this, and have bullied the Irish presidency into calling a special summit early next month to try and speed things up.

France has concluded, rightly, that a Labour government in London would not have very different European policies from the present one. It hopes to finesse the problem by a "flexibility" clause, allowing some member states to go ahead with integration in areas for which others are not ready. The UK accepts that in principle but, as Mr Malcolm Rifkind will warn today in Zurich, it will still make difficulties if the clause looks like being used to discrimnewly elected British governvre than one in the throes of an election campaign. If the UK's partners try to confront London with a take-it-or-leave-it-deal before the election, they risk pushing both parties into a rigid response, which the winner will decisions continue to be taken then have to treat as part of its electoral mandate.



The shift to the state level on

In Hong Kong they sinologists in Whitehall, tory clearly breached the intent are checking off the Museum of Revolutionary History in Beijing's Tiananmen Square a vast digital clock provides a more precise countdown of the hours, ria harbour.

minutes, and seconds before Britain's last significant colony is returned to China. There will be no greet cetaclysm at midnight on June 30 1997. Yet it is pointless to pretend that life in Hong Kong can go on as before. With 284 days remaining, the

mood in this extraordinary citystate mixes apprehension, resignation and forced optimism. Realism, pragmatism, accommodation. These are the terms uttered most frequently as business leaders, civil servants and, with a handful of exceptions, politicians contemplate Chinese sovereignty. For Britain, the handover will

mark the final retreat from empire, the last act in a 50-year break with its colonial past. For China it will draw a line under with the opium wars of the 1840s. For Hong Kong it is a voyage into a perilous unknown.

History obliges Britain to give back the last jewel in the crown of a lost empire. But it does not provide an escape route from the moral dilemma. Its past custom has been to bequeath democratic government before departing from its colonies. If they later fell into anarchy, Britain could say it had done its best. Never before has it ceded sovereignty to a

declared enemy of democracy. As Chris Patten, the last governor, puts it with studied understatement: "Anyone who does not understand that there are certain moral anxieties in this enterprise seems to me to have a pretiv strange notion of political values." At the eleventh hour he has sought to reinforce Hong Kong's filmsy constitutional framework. His modest steps towards democracy have drawn fierce denunciation from Beijing and scorn from

It is easy to see why. Elsewhere a curious charade is being played out, a game of illusions and delusions in which all sides find common cause in insisting nothing much will change when Mr Pat-ten finally boards the royal yacht Britannia in Hong Kong's Victo-

Britain wants to avoid a final stain on its - by and large creditable - record of colonial disengagement. Thus it must pretend its guarantees to the people of Hong Kong will long outlast its departure. China sees the handover as a precursor for the eventual return of Taiwan. That demands a certain respect for the letter, if not the spirit, of its obligations. And Hong Kong needs the confidence of international

Scratch below the surface, though, and a different picture emerges. At Beijing's discretion, Hong Kong will retain some of the freedoms granted in the final decades of British rule: Mostlikely it will enjoy a degree of autonomy much envied by Chithe "Jin" period of history, 150 na's other powerful provincial years of humiliation which began governors. But to imagine it will be governed as in the past is to defy the logic of the transfer of sovereignty. It is to pretend that the values of a distant, usually peneficent, colonial administration are shared by a totalitarian regime wedded to the theory if not the practice of commun

> It was not supposed to be like this. The terms of the transfer of sovereignty were set out in 1984, when Margaret Thatcher and Deng Xiaoping negotiated the Joint Declaration. This unique international treaty was designed to safeguard Hong Kong's capitalist system and its political freedoms for at least 50 years. One of Mrs Thatcher's closest advisers declared at the time that it was "as good as independence". The ment, empty then, seems downright insulting now. In 1988 her administration decided Hong Kong did not need democracy. It later eschewed confrontation when the Basic Law for the terri

of the earlier accord.

A present of democracy

By pretending its guarantees to Hong Kong will outlast its departure the UK hopes to avoid a stain on its record, says **Philip Stephens**

Ms Emily Lau, then a journalist and now a legislator, had a different perspective on the 1984 agreement. It would, she said. "deliver over 5m people into the hands of a communist dictatorship". It was a blunt way of putting it. But, save that the population has risen since by 1m or so, the observation retains its essentiel truth.

Mr Patten's limited democracy. greater transparency in government and increased spending on public welfare represent a modest attempt to make amends. They are intended to convey to the middle and working classes the worth of political freedom. But, pace the sinapologists, history is most likely to conclude this attempt to add some dignity to Britain's departure was too little

est all this sound too gloomy, it is indeed only part of the story. Hong Kong still takes one's breath away. The steel-and-glass skyscrapers which climb the slopes of the Peak at to offering public reassurance. not be allowed to poison the well crazy angles, the serried rows of There have been overtures to million-dollar yachts in the harbour, the queues outside the Gucci store. All are reminders that per capita, this is one of the world's richest nations. There are other, less visible, measures of ss. Life expectancy is second only to that in Japan, child mortality rates below those of

Germany. These refugees from China's past upheavals - the civil war, the great leap forward, the cultural revolution - have built an extraordinary enterprise. Lest Beijing think their aspirations can be too easily brushed aside, some 600,000 have taken out an insurance policy in the form of an overseas passport.

There are other reasons for China to tread carefully. The most off-cited is economic selfinterest. Hong Kong will account for more than 20 per cent of China's national income. Its financial reserves are the seventh large. Fulle by law rather than the rule

est in the world, its stock market treatment on world markets demands Hong Kong retains a

fair measure of autonomy.

It is also true that the institutional framework agreed in 1984 cannot be dismantled without some cost. The principle of one country with two systems acknowledges that prosperity lepends on the rule of law, political pluralism and an independent bureaucracy. Senior civil servants - Anson Chan, the chief secretary, and Donald Tsang, the financial secretary, among them will remain only for so long as

the promises are honoured.

Nor is China's a monolithic regime. Power at the centre has been dispersed by the struggle for the succession to Mr Deng, economic liberalisation and the shift in the balance of power towards its maritime regions. Reformists like Qiao Shi, number three in the Beijing heirarchy, see Hong Kong's potential to give new impetus to change within China. Lu Ping, the most senior official concerned with Hong Kong affairs, has recently taken members of the Democratic party to join the appointed body that will replace Mr Patten's elected Mr Lu has said that, on the

governor's departure, he will shake the hand of a man vilified by Beijing as a "criminal through the ages". There is a pretence also of a contest to choose a new chief executive. The apparent choice, though, between Tung Chee-hwa, the shipping magnate, and Sir Ti Liang Yang, the chief justice, is academic. Whoever is selected will owe their first loyalty to Beijing.

And here we come to the basic point. No legal agreement can suppress the essential instincts of the Beijing regime. Its ideology may no longer owe much to Karl Marx, but its embrace of market economics has done nothing to dilute its authoritarianism. Its power is arbitrary, dependent on

of law. The most powerful figure the eighth largest. Preferential in Hong Kong after the handover will not be the chief executive but the ranking member of the Chinese Communist party, Institutions may be preserved even as

they are hollowed out. This is a point grasped by Ms Lau and by Martin Lee, the Democratic party leader. A light touch is not within the experience of the Chinese leadership. Hong Kong will retain autonomy only if it fights for it. Its people will be joined by Mr Patten in fighting the dismembering of the elected assembly. But elsewhere they have found few allies.

Among the territory's Chinese billionaires the talk is that rule from Beijing will bring as many opportunities as risks. They have already shifted their production to the factories across the border in the Shershen special sconomic zone. They have massive prop erty developments in Beijing and Shanghai. These tycoons have littie time for philosophical arguments about democracy.

Of course, there must be some safeguards. The endemic corruption and cronyism in China must of international investment in Hong Kong. But in the teak-lined boardrooms there are reminders also that, if the playing field for business is now level, it was not always so. The British teipans had their own, convenient definitions of business integrity. The newspapers too, are genuflecting to the new realities. Mr Lu's recent comment that attacks on the China's national integrity will be prohibited hardly raised a

So one country is already proving stronger than two systems. Optimists will tell you that Hong Kong may be the catalyst for dramatic change in China itself. The present political regime in Beljing cannot withstand the pace of economic change. Maybe. Others ask what is there to worry about as long as Hong Kong remains the best place to do business in China. Fair enough. But let us not kid ourselves that nothing will change.

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New York in 1979, later building up its merger business om ef London: Last year he took on recutive responsibilities for the cank across Europe. Perhaps one bank across surrope. Farnance one of his biggest challengrs will be trending his curside board interests; all of which he says he skeeping. He's already chalinant of reuffelised fashion chain Laura Ashley, Ford Motor, broadcasters BSkyB, and Paratic Gentlery, the Hong Kong property company. How will be fit figure in from Tokyo and

Singapore? One colleague suggests: He's simply going to

ce everywhere and anywhere.

Must read *Everyone should have one."

says Cambridge University Press of its latest title, a somewhat intimidating if timely tome exploring everything post should know about derivatives, Martin Beater and Andrew Rennie anthors of Financial Calculus, claim the work is indispensable; so much so that they have just posted one off to Singapore's Changi jall marked for the attention of one Nick Lesson it the hope he'll find the time to

For art's sake ■ Banque Commercial Privee, formerly part of the bankrupt

reorientation of its banking activity under its new owners, the blast insurance group. Hence it is launching a sale of some of .

it is laminching a sale of some of its price assets at the end of finis month, valued at between FF128m and EF128m.

So what are these assets? Not bottle normally considered sentiable to the banker's trade, seeing that they include 100 sculptures, pieces of historic freetimes and paintings by in minne and paintings by artists such as Pissarro. Geograp, Modiglisht, Warhot and De Rooning

Euro lure

■ Jacques Chira¢'s recent message about France seeing Poland in the European Union by around the year 2000 met a frosty reception in Brussels. where officials promptly added comple of years to what they say as a typically Gallic — and therefore over optimistic — timetable

But the notion seems to have gone down well enough with Harm Alexandre Lamfalussy, the president of the European Monetary Institute, who this week visited Warsaw to explain to the Poles the inner workings of the euro and what they need

to do to sign up. Actually, with a budget deficit of under 8 per cent of GDP and

the public debt at below the 60 per cent mark, Poland rises towards the top of the class of possible Emu candidates. Inflation at just under 20 per cent is more of a sticking point.

independence, another Emu condition: is music to the ears of Poland's central bank governor is constantly having to fend off the former communists from the ruling conlition who attempt to circumscribe her movements. Indeed she beamed delightedly esterday when she heard Landalussy insisting on central hank independence and thus equipping her with a powerful suro argument with which to

Political ass

belt her opponents.

Brazilien police in the North-Western town of Pilar are investigating the suspicious death of Frederico the goal. This is no mere crime of passion - . politics are involved. For not only was Frederico standing for mayor in Pilar, he was well ahead in the opinion polls. Owner Petrucio Maia set the goat on the campaign trail as a protest candidate and thinks be was poisoned by political rivals because he "had a lot of foam in

The poor beast would have gone far

Financial Times

100 years ago Peace and Low Prices

An article entitled Peace and Low Prices that appeared in a recent number of the Chicago "Economist" ought, we think, to be brought to the notice of the Peace Society. Our contemporary declares, in epi-grammatic language, that War has its horrors on the battlefield, but peace has its penalties on the Bourse," and remarks that the world is paying the penalty of longcontinued peace by a protracted and disastrous decline in prices. This cold-blooded reasoning is backed up by way of illustration by the statement that wheat has sometimes shot up by ten cents on the Chicago Board of Trade on the mere suggestion of a possibility of a European war.

50 years ago Sao Paulo Railway

It was confirmed officially yesterday that the Britishowned Sao Paulo Railway has been taken over by the Brazilthat fuller details would be available was not fulfilled. Senhor Neves da Fontoura, Brazilian Foreign Minister who is on a visit to London, is reported to have said: "The is at an end - it finished Saturday."

China warns Australia over Dalai Lama visit

By Tony Walker in Beijing

China yesterday threatened trade retaliation against Australia over plans by Mr John Howard, the Australian prime minister, to meet the Dalai Lama, Tibet's exiled spiritual

It is believed to be the first time that Beijing has said it would use trade as a weapon to punish foreign governments which receive the Dalai Lama, who is accused by the Chinese of seeking to split Tibet from

Mr Shen Guofang, the for-

eign ministry spokesman, said such a meeting would unavoidably have an unfavourable influence on eco-nomic and trade relations." He added: "Countries, including Australia and New Zealand, should be clearminded about the Dalai Lama who deceives international

some countries." The Dalai Lama met Mr Jim Bolger, New Zealand's prime

opinion and the leaders of

elling to Australia for a twoweek stay. He was received in Sydney on his arrival last Saturday by Mr Alexander Downer, the foreign minister. Mr Howard said during a

visit to Jakarta that he planned to meet the Dalai Lama in spite of strong Chinese protests. "We have a proper reputation as a country of religious and political tolerance and in that context the meeting between us, if it can be arranged, will take place,"

Beijing is sensitive about what it regards as the Dalai Lama's attempts to promote Tibetan independence, and has become concerned about separatist movements in its frontier regions.

Beijing has not specified what action it might take, but the Australian New Zealand (ANZ) bank is concerned that its efforts to secure a licence to open a branch in Beijing may be affected. ANZ has been given tentative approval. China delayed approval for

Allianz, the German insurance

group, to secure an operating licence in protest over the reception given to the Dalai Lama in Germany earlier this year. At meetings with Mr Downer last month, both premier Li Peng and vice premier Zhu Rongji alluded to the Allianz example.

An Australian official in Beiting said China may not take immediate action, but he warned trade was "an area of vulnerability for us."

What they might do remains ambiguous. It may be they won't do anything. The Chinese might leave it hanging," he said. China is assuming increas-

ing importance as a trading partner for Australia. In 1995. China became Australia's sixth largest trading partner the 7th largest destination for Australian exports and fifth largest source of Australian imports.

After July 1 1997 when Hong Kong is reunified with China, China will become Australia's third largest trading partner

Czech bank offered support package

The Czech central bank stepped in yesterday to prevent a liquidity crisis at the country's biggest privatelyowned bank as reverberations from the collapse of another bank last month spread through the financial sector-Mr Josef Tosovsky, Czech National Bank governor, said he had asked other commercial banks to make Kc 6bn

run on its deposits. Leading banks have refused to extend normal interbank lending facilities to Agrobanka in recent days because of possible problems arising from its links with Kreditni Banka, which collapsed with gross losses put at Kc 12bn.

(\$226m) available to Agro-

banka, the country's fifth largest bank, if there was a

Agrobanka is controlled by shareholders allied to Motoinvest, a fund manage-ment and banking group at the centre of a police investigation into the Kreditni affair. Mr David Knop-Kostka, a senior executive at Motoinvest, is under arrest charged with embezzlement and harming the interests of creditors in relation to the collapse of

banka. Three former Krediini smecutives and a second Motoinvest executive are also in detention in relation to the collapse. Mr Pavel Tykac, general director of Motoinvest, left the Czech Republic on

Kreditni. He is a member of

the supervisory board of Agro-

Mototovest acquired control of Agrobanka late last year. The central bank admitted yesterday that it is not entirely sure who the ultimate owners are because of the opaque nature of its shareholding structure and the secrecy of Motoinvest's

The move to support Agrobanks followed a crisis meeting of the cabinet and the CNB's banking board that disthe Erediini failure.

A special commiss prising the finance, interior and justice ministers is also investigating the reasons for Kreditni's collapse.

Brady bonds

After years of labouring under the stigma of "restructured debt", there is a grave danger of Brady bonds acquiring an image of respectability. An index of prices on these bonds - issued since 1990 in exchange for distressed commercial bank debt, mostly in Latin America

- has rallied by about 6 per cent this month alone, and nearly 25 per cent since January. The previously unthinkable – some Brady bonds trading on narrower spreads then similar Europoud issues - has now arrived.

improved sentiment is the production act of an inflow of new money, with increasingly mainstream investors attracted partly by mouth-watering yield differentials. But these have always been available; indeed, they are much smaller now than in the

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Calling Germany

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earned policy credibility Brady issuers have acquired as well as the

stability the market has shown,

Healthy profits in US bond and

stock markets have helped, encour-

aging investors to take more risk in emerging markets. Diminished sup-

ply has also played a role; Mexico

and the Philippines have swapped

Brady bonds for lower yielding

Eurobonds, and others are rumoured to be following.

rise of recent weeks could not continue. But short of the unforeseen,

or the US Federal Reserve raising

rates, current prices look sustainable. The whiff of volatility and

market veterans has largely disappeared, is unlikely to return.

The pull-back in prices yesterday

With two months to go until flotation, Deutsche Telekom is starting to make eyes at investors. Yesterday the group announced it will pay a DML5hm (\$993m) dividend for 1996, despite the fact that first-half profits have been almost wiped out by a series of one-off restructuring and tax charges. That would imply a 2 per cent yield on the DM75hn which most analysis think the company's equity is worth - a reasonably high payout by German standards. And the yield should rise nicely over the next few years. In 1997 the dividend could double to DM2bn as one-offs disap-pear and profits bounce back to DM7bn or more. Thereafter, rapid cost and debt reductions - with net borrowings of DM98bn Telekom is effectively a huge leveraged buy-out
will fuel earnings growth, allowing further increases in the payout.

This scenario might appeal to domestic German investors. But it is unlikely to cut as much ice with international institutions at a time when British Telecommunications, Tele Danmark and Holland's KPN are yielding 5-6 per cent. Moreover. there are more telecom privatisations to come, all of which will try to lure investors with juicy divi-

dends of their own.

Nor are institutions blinded by yield. As far as growth is con-cerned, Telekom offers fast, though slowing, expansion in eastern Germany and strong market positions in mobile phones and high-speed ISDN lines. But it has yet to knit together its array of international investments and face real competition at home

If the reputation of P&O's chairman Lord Starling were an invest-ment, now would be a pretty good time to buy. The first step to rehabilitation was last week's container shipping deal with Nedlloyd - an undoubted coup which put some badly needed firs into P&O's share price. The next step will be to top this - as Lord Sterling plainly intends - with a channel ferry alliance. Yesterday's North Sea deal abould only be an appetiser. In the channel itself, much more savage rationalisation is needed.

Assume this is on the cards and P&O's prospects are looking up.
Halped by healthler property markets as well as the deals, earnings growth should be sprightly. Yet the shares are still trading at a slight discount to next year's market average price/earnings multiple. This

looks unduly cautious. But nagging questions remain. Once the current restructuring is over, P&O will still be a ragbag of dislocated businesses, including stakes in semi-independent ferry and container joint ventures and a hefty chunk of property. Of course, investors will rightly care more about the company's performance than whether it fits some abstract business school model. Nonetheless. as current cash pressures recede P&O will almost certainly want to start spending money again. And given its record, investors will need convincing that their cash will be spent wisely. So as well as sorting out P&O's headaches, Lord Sterling has another big task ahead of him: to articulate convincingly where he thinks the company is heading.

Tesco

Tesco's performance is hard to fault. Over the past three years it has successfully boosted volumes by cutting prices, through schemes like its loyalty card and the "Unbeatable Value" campaign. While suppliers have shared the pain on margins, Tesco's superior sales growth has gained it market share, putting pressure on J. Sainsbury and other rivals.

is not surprising; the precipitate But while this strategy has brought Tesco some competitive advantage it is rapidly commoditising the industry. With customers now used to lower prices, it is hard to see the supermarkets reclaiming their lost margins. Worse, the food retailers are still merrily flinging around vast amounts of capital. excitement, which to the chagrin of Two years ago, Tesco forecast capital spending of £450m for the current year. It will actually spend 2770m, more than twice depreciation and three times the level at Marks and Spencer, which serves a bigger market. And although Tesco says the 15 per cent average return from new stores is above its 11 per cent cost of capital, this is not the whole story: building new super-markets has the effect of reducing the value of existing ones.

As long as food retailers continue to spend at this rate, rapidly rising dividends and share buy-backs remain a distant prospect. This is in stark contrast to much of UK industry, which is generating more and more spare cash. Small wonder the sector has been such a poor stock market performer.

Lex comment on Sears, Page 22

Concern at rash of attacks by hackers on Internet sites

A rash of backer attacks on commercial Internet sites including one in which the services of Panix, a New Yorkbased internet access provider, were seriously disrupted – has raised new concerns about the security and reliability of the worldwide computer network.

In these "denial of service" attacks, hackers have flooded Internet sites with false requests for information sent from fake addresses, tying up the computers and preventing access by legitimate users. in addition to the Panix

attack, at least one large information technology company, which declined to be identified, has suffered a similar

Attacks have been "isolated vik, vice-president of information systems at Cisco Systems, the leading manufacturer of routing equipment for the Internet. The company, however, is concerned that the

problem could spread, disrupting Internet service for millions of users and effectively closing down large commercial sites on the Internet.

their partners and customers.

"denial-of-service attack" can be devastating, said Mr Solvik. Within a minute, a computer linked to the Internet can be completely overwhelmed and it may take days before service can be restored.

Mr Alexis Rosen, president Networks, a private company that operates the Panix network, said backers attacked several computers on his network, preventing subscribers from retrieving electronic

With many banks and retailers now planning internet services, the potential for financial losses as a result of such attacks is rising. Disruption of Internet service can also be a ecrious problem for the tens of thousands of businesses that now rely on electronic mail and sites on the World Wide Web to communicate with

The impact of a large-scale

mail, reaching the Panix Web sits and reaching Internet news groups over five days. The attacks stopped last week. Because the attacks came

from fake addresses on the Internet, it was "impossible to trace the source without a major effort on the part of all Internet service providers between Panix and the attacking party", said Mr Rosen.
"The nature of the Internet, which is designed to let

machines communicate with a minimum exchange of identifying information, makes every site on the Internet vulners. ble," said Mr Rosen. The Federal Bureau of investigation's New York Computer Investigations Threat Assess

ment Center is understood to be investigating the attack on Panix. Computer Emergency Response Teams, a US organition about security and technical problems on the Internet, are looking into the incident.

Dinosaurs get hungry, Page 14 Skills warning, Page 10

to be "truly effective" and designed to have a continuing impact once Emu had been established. He also insisted that the Maastricht criteria, which will determine which countries can join Emu, should continue once the single currency was operating

An economic and monetary union based on principles of stability could lead to lower interest rates, Mr Tietmeyer

In a warning to governments not to dilute the criteria, Mr Tletmeyer said they "must be applied correctly and precisely". He said France and Germany had agreed the need

"meet the criteria fully without any window-dressing operation".

However, he acknowledged that the criteria - which include the 3 per cent limit on government deficits and a limit of 60 per cent of GDP for total government debt - were subject to interpretation. It would be the task of the European Monetary Institute, the forerunner of the planned European central bank, to elaborate on this before the

end of this year. Mr Tletmeyer said he hoped the Dublin meeting would result in broad agreement on a plan to regulate relations between Emu members and countries outside the group.

Paris and Bonn make pledge to meet Emu deadline

Continued from Page 1

Europe today High pressure over western Norway will bring sunshine to most of Scandinavia but Finland will be partly cloudy. Most of the British Isles will have sunny periods. The Benekix, Germany and northern France will have sunny spells. The Medite will have some rain. Spain and Portugal will be mainly cloudy with thunder showers likely near the east coast, Showers will occur in italy and Sicily will have thunder showers. Showers are also likely in Switzerland and Austria. Sunny periods are expected over the Balkans, Greece and Turkey. riods are expected over the

Five-day forecast Western Europe will be changeable with sunny periods and showers. High pressure will bring fair weather to Scandinavia. A low pressure area will cross Spain and northern France reaching italy and the Balkans during the weekend. Abundant rain will fall near the track of the



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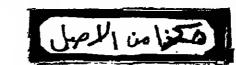
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THE PHILIPPINES

Manila chalks up several tiger stripes

There's a lot of good news, but with only two years left of mary commodities sector his term, President Ramos is under pressure over the last stages of his reform programme, writes Edward Luce

fleet comes along, the Philippine government has recently had an unexpected crop of good news.

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With a 7.1 per cent rise in gross national product in the bill, much of the contested first half of 1996, economic growth could finally be on course to reach Asian Tiger rates, say economists. The signing on September 2 of a permanent peace settlement to drop to about 6 per cent to end the bloody 24-year by December. Even the agricivil war with the country's 5m Moslems has been hailed as proof that political stability has been achieved. And foreign investment, led by Japanese and Taiwanese electronics companies, is at last spilling over into robust manufacturing growth.

There is so much good news, in fact, that it is easy to forget that just six months ago observers were beginning to question the sustainability of the country's economic turnaround. A series of natural disasters at the end of last year almost bludgeoned the agricultural sector into negative growth and threatened - via higher food prices - to push inflation, which had surged to 11.8 per cent in the last quarter, into an upward spiral this year.

Political squabbling in congress, triggered by the split of the ruling Lakas-Laban coalition into opposing 1996, and a series of wildcat strikes against fuel price deregulation, raised fears that the national cousensus stage, when almost every Airlines.

lame duck.

But time, and, of course, events have conspired to swing the emotional pendulum back. With the exception of the crucial tax reform legislation, including oil deregulation, has entered the statute books. Inflation, meanwhile, has fallen below double digits and is expected cultural sector, which has long been a drag on the Philippine economy, has slon passed last week, the ad rebounded with 6.6 per cent valorem tax will be retained growth in the second quarter

Against this backdrop which, in the words of one businessman, shows "all the good economic indicators. pointing up and all the bad ones pointing down", it would be tempting to view the problems earlier this year as a pothole on the road to Asian Tigerhood. Judging by the country's mercurial past, however, only the foolhardy would predict the latest mood swing will last. Plenty could still go wrong.

For a start, the tax bill. which is considered the single most important fiscal reform in the country's recent history, could still be picked to pieces by hostile. forces in congress.

Important elements of the legislation, which is already schedule, have been successfully opposed by powerful interests led by Lucio Tan, the country's foremost Chifragmenting. Indeed at one and chairman of Philippine

government bill seemed to. The publicity-shy Mr Tan,

ond largest beer company. successfully lobbied against a clause which would have abolished the ad valorem tax

on "sin" products. His enemies, including the government tax department, accuse him of fiddling the ad valorem tax system by shifting production costs to "ghost" marketing arms. Government lawyers allege Mr Tan has avoided 26bn pesos (US\$1bn) in taxes through this deception. Under the compromised verside by side with the excise taxes on beer and tobacco originally proposed by the

government. The setback to the government augurs badly for its proposals to simplify the personal and corporate income tax system which congress will debate later this month. The government wants to narrow the nine-tiered tax system down to three bands and broaden the tax base. The IMF has urged the Ramos administration to sify in the coming months. push the tax package

through this year. not immune to the general downturn affecting exports across east Asia. With export growth of 18 per cent in the first seven months of 1996, the Philippines is still ahead of the pack but below the 30 forces at the beginning of several months behind per cent increase in export receipts it registered in 1995.

global price of electronics, which make up 40 per cent behind economic reform was nese-Filipino businessman of total Philippine exports, could est into the country's performance in the latter half of the year. On the be submerging into a quag- whose array of business other side of the coin, the

A further drop in the

appears to be recovering from the contraction of 1995. But a sharp drop in overall

Like passengers at the ing some thought President Banking Corp and Asia outpaced by import growth proverbial London bus-stop Fidel Ramos had become a Brewery, the country's secexports, which have been of 24 per cent this year, would lead to a widening of the current account deficit. At 25 per cent of GNP, it is still within acceptable bounds, thanks to remittances from the country's 4m-strong overseas work-

> Last month Cielito Habito. cabinet minister for planning, earned himself a rebuke from the central bank for snggesting it should engineer a depreciation of the Philippine peso, which he said had appreciated by 10 per cent in real terms over the last 12 months and thus constrained exports. Not unressonably, the central bank pointed out it had almost doubled its foreign exchange reserves to over US\$11bn since January in an effort to prevent the currency from appreciating further. Any attempt to push it in the other direction, said central bankers, would be swiftly negated by the continuing surge of capital inflows. The argument is likely to inten-

Nevertheless, for an economy which only a few years Second, the Philippines is ago was heavily reliant on primary commodity exports and large scale foreign borrowing, the controversy is comfortingly reminiscent of debates in more developed economies like Thailand and Malaysia. With debt service costs down to about 13 per cent of export revenues and agricultural growth easily outpaced by growth in services and industry, the Philippines is starting to resemble its more prosperous

Asian neighbours. Like Thailand, or for that matter, Indonesia, rapid economic growth is pushing the



country into infrastructure on his promise to shift tourism and the spectre of bottlenecks, most noticeably in transport, public hygiene larly, the rapid emergence of a Philippine middle class bringing in its wake the obligatory property and con-sumer spending boom - has left a large and impoverished cal obscurity. The gaping failure of the much-touted "trickle-down" effect (35 per cent of Filipinos remain below the absolute poverty line) and president Fidel

spending from traditional items to better health and education for the poorest. has compounded this divide.

Again, the problem is com-Asian countries and has, to a certain extent, been amplified by the Philippines' recent economic successes. Unless, however, there is a more concerted effort to allecontinue to be racked by the scourges of mass labour

wide scale social unrest.

mon to other south-east sures. The key question is them in the time which remains. viste the extremes of restore political stability and inequality, the country will and the country's chronic

With less than two years to go before the May 1998 elections, Mr Ramos is acutely aware of these preswhether he has the power or the political will to confront

The first of the president's 1992 election pledges to power shortages within his first two years of office was faithfully delivered. The sec-

IN THIS SURVEY

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 POLITICS: The peace deal with Moslen separatista puta President Ramos on high ground as he approaches the last two yeers of his term

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CAPITAL MARKETS: Legislative changes are Interest can be translated into stronger investments po

S INVESTMENTS The number of investment approved by the BOI is up 15% on last year as bullishness persists

THE ELECTRONIC SECTOR: No longer satisfied with being an efficient 'assembly line'

OIL AND PETROCHEMICALS: The regulation of the oil Industry earlier this year has opened up the country to full competition in the downstream refining sector

PROPERTY: The boom is going strongly into its fourth

ond pledge, to put the economy on track for Newly Industrialised Country status with a programme of sweeping deregulation and privatisation, has probably been achieved. The last, to focus aggressively in the final two years of the administration on the reduction of poverty, corruption and bureaucracy, is still before him. Only time will tell whether it was the throwaway line of a politician on the hustings or a sincere pledge to fight for justice in



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Unlikely peace pact seems set to hold

Hard-line opponents of the deal have been sidelined

The September 2 peace agreement between the government and the Moro National Liberation Front (MNLF), the country's largest Moslem separatist group, was something many thought they would never see. The conflict, which in its most recent phase since 1972, claimed over 100,000 lives, has bedevilled the southern Philippines since Spain colonised the country in the 16th century.

Indeed, the word Moro, which applies to the country's 5m Moslem minority, is simply a corruption of the Spanish word for "moor". Bridging the gulf between the region's Christian and Moslem leaders, was a feat few believed President Fidel Ramos would accomplish. But war fatigue and the Malacanang Palace's unstinting hunt for political accommodation meant a return to full-scale war was

The outcome - a three-year autonomous council covering 14 provinces to be replaced by a permanent autonomous structure after a nlebiscite in 1999 - is an agreement which will be underpinned by the support of the Philippines' closest neighbours, including Indonesia. The significance of Jakarta's involvement, underlined by the presence of Ali Alatas, Indonesia's foreign minister, at the signing ceremony, was not lost on Manila's elite.

"Indonesia's encouragepeaceful settlement was crucial to the success of the talks," said Julius Caesar Parrenas, professor of poli-

"As a country with more nomic agenda, the breakseparatist conflicts than any other in the region it was not going to allow an unfortunate precedent to be established next door."

The promise of Indonesian and Malaysian investment in Mindanao, the Philippines' southernmost island, and the knowledge that both Christian and Moslem hardline opponents of the deal politically sidelined, are explains the widespread con-fidence that the deal will stick. Equally important, it gives substance to the country's claim to have achieved genuine political stability.

This claim - backed up by the demise of the country's other long-term insurgency, the communist rebellion. which is barely a shadow of its former self - is now generally accepted by foreign investors. The recent turmoil in Jakarta and security problems across the Taiwan straits have highlighted the Philippines' relative stability compared both to its own past and the travails of some of its neighbours.

of the 1998 presidential elections features with growing prominence in the calculations of overseas investors. Few believe the momentum of economic reforms set in train by Mr Ramos could actually be reversed. But a populist candidate, elected perhaps by an electorate dissatisfied with the growing inequality of wealth distribution or backed by vested business interests, could, at least, check the pace of the economic reform process.

The formal split in the senate earlier this year of the Laban party from the ruling ment of the MNLF to reach a Lakas-Laban ruling coalition was taken by many as the first shot in a long presidential campaign. Led by Senator Edgardo Angara, previously a supporter of the away group had already called itself the "senate conscience bloc".

In a U-turn characteristic of the fluid party system. politicians such as Gloria Macapagal, a presidential hopeful for 1998, switched from support to opposition to the key economic reforms including oil price deregu-lation, expanded value added tax and liberalisation of trade in agriculture. Confusingly labelled "pro-

poor", the group set about undermining policies designed to help the less well-off by tabling exemptions to expanded VAT on real estate transactions, electronic goods and other luxury products. Although it failed to prevent oil price deregulation, the group also described its stance on oil as "pro-poor" even though the measures would have led to a reduction in kerosene prices for the poor.

The debate, conducted in an emotional atmosphere and fuelled, at times it seemed, by a campaign of disinformation in many of the country's leading newspapers, was an unsettling foretasta of what could be in store in the 1998 presidential elections. "It should not be forgotten that the Philippines lacks a proper party system," said a leading foreign investor. "The acope for naked political opportunism here is very wide."

The focus on 1998 is somewhat clouded by the fact that supporters of Mr Ramos are involved in a signature campaign to hold a referendum to abolish constitutional term limits or to simply extend the president's term. If successful - the petition has raised 1.7m out of the required 3m signatures to hold a plebiscite - Mr Ramos could yet opt to run in 1998 despite the controversy it would generate.



President Fidel Remos

Presidential aides say Mr

Ramos has not yet made up his mind but would probably take the gamble if the constitutional amendment had gained enough support by mid-1997.

Congressmen, of whom a third must stand down in 1998, not to mention the dozens of provincial governors and mayors facing compul-sory retirement, have sent mixed signals. The amendment, which would be bitterly opposed by Cory Aquino, the former president who drew up the constitution in 1987, and the catholic church, would be held up by some as a return to the days of President Ferdinand Mar-

cos, who suspended the constitution in 1972 to perpetuate his hold on pos Supporters of Mr Ramos

are apparently contemplating one of two options. The first, to alter the constitution to allow Mr Ramos to stand for a second six-year term is the most plausible. The second, to extend the presidential term to 2000 without holding an election is also under consideration. Ironically, the latter, which would be justified by the need for the administration to complete the "unfinished business" of its reform programme, would almost cartainly tarnish its solid record on political stability.

Foreign affairs: by Edward Luce

Pragmatism governs thinking in Manila

Geography rules as Asean and Apec are used to defuse military,

economic threats At the Apec (Asia Pacific Sconomic Co-operation) leaders' summit in Manila in November, the regional spotlight will focus, temporarily,

on the Philippines. Cynics will dismiss the one-day leaders' meeting -preceded by seven days of ministerial and senior offi-cials talks – as little more than a photo-opportunity. For the Philippine government, however, the summit is viewed as a chance to broadcast the country's growing respectability to the wider region. In addition to this rare public relations opportunity, it sees the Apec trade liberalisation process as key to the country's

Since the US was summarily ejected from its Philippine naval and air force bases by a senate vote in 1991, the country has felt acutely vulnerable to outside pressures. The discovery last ear of Chinese naval installations on a portion of the disputed Spratly Islands, 130 nautical miles off the Philippine coastline, heightened this sense of exposure.

A subsequent wave of Chi-nese "rogue" naval incursions into Philippine waters helped stoke unease about China's military reach and strident rhetoric. Manila's mutual defence treaty with the US does little to counter

The arrival of Chinese President Jiang Zemin and 16 other heads of state in Manila in November will be an opportunity to intensify the dialogue with Beijing and to push China's integration with the wider region. Manila believes it is an much a strategic as an economic goal to eliminate trade barriers within Apec by 2010 for developed members and 2020 for developing countries. "China is now on the road

to becoming an económic as

well as a military superzon, Philippine secretary of state for foreign affairs. "Our main concern is how China will behave in the future. We believe that Apec provides the solution by giving China the economic space to grow within a framework which will diminish the possibility of open conflict."

As a supporter of China's application to join the World Trade Organisation in Geneva, the Philippines is also playing a pragmatic game with Beijing. The refusal last month to issue visas to a delegation of Tibetan activists invited to speak at a human rights conference in Manila was taken as evidence of a desire to avoid provoking Beijing before the Apec meeting.

Talks with China on the Spratlys have also led to an easing of tensions. The two countries agreed to resolve the dispute without force. China's membership of Asean (Association of Southeast Asian Nations) is also construed as an opportunity to engage Beijing.

Through the Asenn regional forum and other less institutional channels. south-east Asia has spoken to China with one voice on the Spratlys. The other claimants - Malaysia, Vietnam, Brunel and Taiwan all signed the 1992 "Manila declaration" which pledged to avoid conflict over the potentially oil-rich islands. China's membership of

Apec and the regional forum is also considered a vital conduit to promote civilised dialogue between the US and Beijing and to ensure Washington remains committed to the region. "If the US withdraw militarily from Asia, Japan would feel pressured to develop its own nuclear weapons," said Mr Siazon. "This would lead to a nuclear arms race in the region. It is vital, therefore, that the US remains fully engaged in Asia and the Pacific.

The development of closer trade and economic ties at the sub-regional level within the region

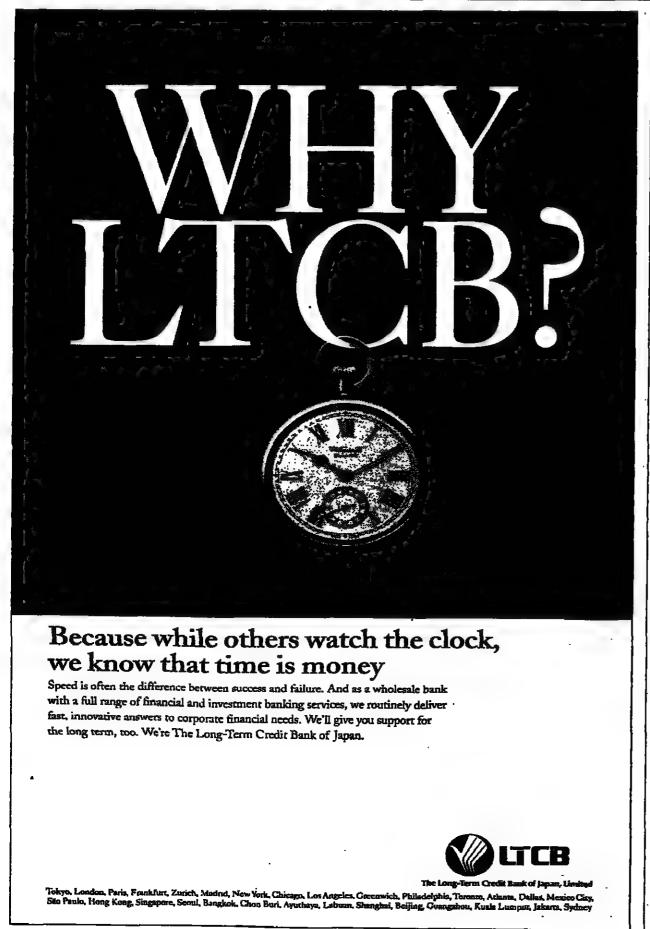
power," said Domingo Sia- group is also an essential part of what Philippine offi-cials call the broader Asian "template", Manila's informal proposal earlier this year to unilaterally extend Ascan's turiff reduction programme to Apec on a "most favoured nation" basis hasso far made little progress.

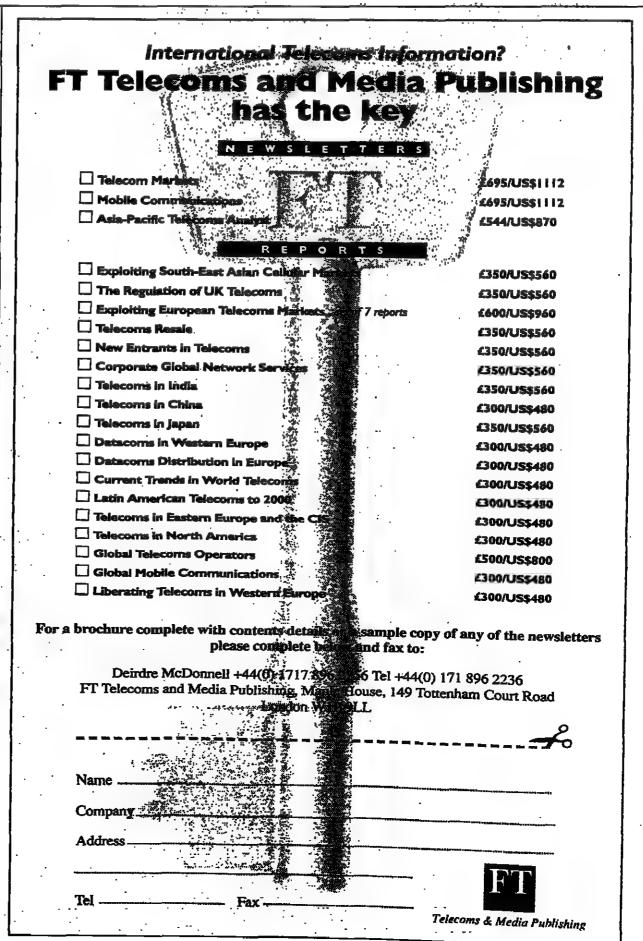
The initiative, which would extend to the region as a whole Asean's goal of reaching a 5 per cent common tariff rate by 2004, would - if accepted - be presented as a bold gesture at the summit in November, But the Philippines, which, unlike Malaysia, has consistently backed the concept of 'open regionalism" in Apre, is attempting to keep the issue alive at meetings with its counterparts.

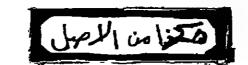
"In Asean and indeed Apec, we do things slightly differently to other trade groups," said Melito Salazar, Philippine undersecretary for trade and industry. "We float proposals behind the scenes and if they meet with a good response, we move it up to the formal level. There is still plenty of time to talk about this initiative before November.

As part of Manila's contribution to Asean's obsession with "consensus", the Philippine government surprised many of its domestic supporters when it uncritically accepted Burma's application to join Asean earlier this year. In a vague nod towards the Philippines' democratic principles, Burma was persuaded to issue a joint statement expressing general support "democratisation". Beyond that, however, no conditions were attached to Burmu's arcession.

"First and foremost. Asean is a geographical family of nations, and the differences between our systems do not alter that fact," said Mr Siazon. "But we believe that by directly growing together and helping each other to develop, we will encourage the establishment of democracy in







FINANCIAL TIMES WEDNESDAY SEPTEMBER 18 1996

Economy: by Edward Luce

Manila has learnt its IMF lesson well

The outlook is tigerish as key indicators line up with IMF forecasts

 $e^{-i(x)} \mathcal{N}_{\mathcal{M}_{\mathbf{p}_{\mathbf{q}}}^{\mathsf{T}}}(x) = e^{-i(x)} \mathcal{N}_{\mathbf{p}_{\mathbf{q}}}(x)$

With fust nine months to go before the Philippines graduates from what it hopes will be its final Interna- often painful reform, howtional Monetary Fund programme, almost all the key macroeconomic indicators are in tune with DMF forecasts. The programme, a gence Just one example is three-year US\$684m credit the composition of imports: assistance facility which, in ten years ago the country the event, has been left paid for imported foreign untouched, was designed to help rid the country of its tendency to behave like a child in a candy store whenever growth rates took off.

Like those with a sweet tooth, the country has learnt its lesson the hard way. Over-consumption, fuelled by overseas borrow-

spending during the 1970s and manufacturing base and 1980s, was followed by With export growth of 80 indigestion and negative per cent in 1995 and 18 per growth rates the next year. cent in 1996, the country no A repetitive "boom-bust"

ever, appear to have given the Philippine economy a more abstemious character, less prone to over-indulconsumer products with imported dollars.

By 1986, consumer goods had plummeted to less than 10 per cent of the country's import bill. The remaining 90 per cent or so is accounted for by raw materials, capital equipment and half-finished goods for the

longer relies heavily on cycle worked its way into overseas debt to fund ecothe national psyche, and nomic expansion and domes-became a difficult habit to the consumption. As a percentage of export receipts, Several hard years of debt servicing costs have dropped from a high of about 40 per cent in the late 1980s to 13 per cent in 1996. Total foreign debt has plummeted from 120 per cent of GNP to 51 per cent this year.

In 1997 the Philippines is projected to register its fourth budget surplus in a Large problems, of course,

remain, not least the need to push through a comprehensive tax reform bill if the budget is not to swing back into deficit as revenues from privatisation dry up.

ing and higher government country's growing export foreign direct investment revert to old habits. This over the last 18 months elocould happen in a number of quently demonstrates - the ways, the most plausible of overall picture has radically which is a return to fiscal changed. With 7.1 per cent irresponsibility. gross national product With privatisation pro-

growth in the first half of ceeds diminishing rapidly. 1996, up from 5.8 per cent in the country urgently needs to put a broader and more 1995 and 5.2 per cent in 1994, economists believe the transparent tax system in Philippines is inching its way towards Aslan Tiger Pailure to enact the tax growth rates.

reform bill in acceptable "If I was coaxed to gaze form - the capacity of the into my crystal ball, I might Philippine congress to shoot well argue that the Philipthe economy in the foot pines has the potential to should not be underestioutperform its neighbours," mated - would quickly push says David Nellor, TMF repthe national budget into the resentative in Manila. There is little doubt now red. This would eliminate the badly-needed scope to that recent growth is more boost spending on health, than just a cyclical education, infrastructure what, therefore, could and other areas vital to the country's fature competipossibly stand in the way of double-digit growth rates?

It would also, inevitably, mean a return to higher government borrowing, which would push domestic Approved Investments

Project cost Peso bo 40.2 32.00 Public utilities 29.3 4.50 Energy related projects 6.2 infrastructure/industrial Service 5.8 Soutce. Board of importments

interest rates up and private budget - to make space for sector investment down. The growth of domestic savings, up from 14 per cent of GNP in 1993 to around 20 per cent this year, would almost certainly come to a halt.

Higher domestic interest rates would also raise the cost of servicing the government's peso-denominated liabilities, 80 per cent of which are short-term. The goal of reducing government spending on interest payments - which will gobble up 25 per cent of this year's

wants to keep the econo on the right track."

Apart from tax there are also question marks over the country's current account balance. Contrary to popular opinion, about 70 per cent of the Philippines' estimated US\$5bn remittances comes from expatriate professionals in the US rather than domestic servants toiling in the Gulf and Hong Kong. The notion that the country owes its small balance of payments surplus to the sweated earnings of its 3m oversees maids is a

myth. The spectre, however, of a widening current account deficit is not. With strong overseas worker remittances making the difference between a small current account deficit - at about 2.5 per cent of GNP - and a large one, there is always the danger that the deficit could widen. The need to maintain rapid export growth to help pay for even faster import growth is therefore paramount.

E Capital markets: by Edward Luce

100 many cooks

Greater clarity needed in order to encourage investments

The rapid emergence of the Philippine stock market over the past three years has not been matched by equivalent growth in the debt market. With stock market capitalisation more than quadrupling to US\$70bn since 1993, and average daily turnover two-thirds of which is foreign-driven - rising from about US\$40m to US\$120m in the same period, Philippine equities are clearly in demand.

The same cannot be said of peso-denominated debt. Is the 20 per cent witholding With the exception of government securities, notably badly drawn up and confus-the 91-day treasury bills and ingly implemented. Under more recently the market for two, three and seven-year government bonds, the growth of Philippine corporate debt has been sluggish. Delays to various capital ify how it will implement

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market reforms, including the introduction of a central depositary system and changes in the treatment of mutual funds, has prompted Philippine blue chips to issue oversees rather than at home.

"Over the last six months tions in the local debt mar-Boyne, vice-president with responsibility for treasury and capital markets at HSBC Markete in Manila. "But a number of tax laws and regulations need to be clarified before that substantial interest can be be translated into stronger investments."

First on the list for reform tax, which analysts say is various tax treaties, the Philippines is obliged to reimburse foreign investors part of the 20 per cent tax. The central bank has yet to clar-

this. US investors, for example, are only supposed to pay 10 per cent according to a bilateral treaty.

Second, the 0.25 per cent documentary stamp tax discriminates against private sector bonds. Government bonds are already exempt we have seen a strong rise in from the tax. This not only interest from foreign institu- tilts the market against private debt but acts against ket, particularly government the development of a second-securities," said Mark any debt market in private debt, say investors. "The stamp tax is imposed on just about everything that moves and it's just too high," said Roman Azanza, director of Croshy Securities in Manila. Third, mutual funds are

subject to double taxation. Pending a change in the law, foreign investors are also debarred from sitting on the board or from taking a majority share in local unit trust funds. Most of these anomalies

are due to be ironed out aither by legislation or by new central bank regulations in the next six months.



Like any reformed binger,

there is always a danger the

Philippines might stealthily

funds, have been rolled into an omnibus tax bill which has been delayed for politi-Others, such as confusion

over the definition of short selling, which, according to one broker, is "viewed with great suspicion by the authorities", can be cleared up by simple flat. "The main problem is that there are too Some, notably simplifying many cooks spoiling the

the tax treatment of mutual broth," said Benjo Arcinas, president of the money mar-kets council. "The SEC, the central bank and congress are all supposed to draw up regulations. As a result noone seems to have taken a lead."

This confusion is also behind the delay to the setting up of a central deposiclearing house, both of which were supposed to be ple, are debarred from panies, are trading at less

in place by mid-1996 or earlier. Wrangling between the Philippine central depositary, the Philippine stock exchange and the central bank over the terms and conditions of the fund have pushed the timetable back

until December. Once it is in place, however, brokers say it will have tary system and a central a salutary effect. Large foreign institutions, for exam-

central depositary system. Others are deterred by Manila's lengthy settlement process. "The central depositary will reduce settlement time on non-equity securities from 27 days to 4 days," said Mr Azanza. "This will dramatically curtail systemic

more productive expendi-

ture (such as boosting infra-

structure spending from 3

per cent of GDP to the 6 per

cent average in south-east

Asia) would also be stymied.

really significant economic

reform left to accomplish." said Mr Berhnard

JP Morgan in Singapore.

"It is also, however, one of

the most important. Raising

tax revenues is crucially

important if the country

Eschweiler, an economist at

"The tax bill is the last

risk in Philippine debt."
The frustration over the slow evolution of the peso debt market stands in marked contrast to the reception given to Philippine corporate debt overseas, especially in the Euro-debt and Yankee bond markets. In the three years since the National Power Corporation (Napocor) led the country's return to the overseas debt market, more than a dozen Philippine companies have

followed suit. Some, such as the Philippine Long Distance Telephone Company, which has issued US\$750m in seven and ten-year bonds, have returned up to three times. PLDT's Euro-debt is trading at about 260 basis points over Libor. Ayals Land and SM Prime, two of the country's leading real estate com-

investing in markets without than 210 basis points over US treasuries on their three year floating rate notes.

Several Philippine banks,

including Metrobank, which will later this month issue the country's first five-year FRCD in Europe in a US\$100m offering, have expressed frustration at the costs of issuing shorter-term debt in pesos. Nevertheless, it is hoped the government's initiative earlier this month to retire as much as US\$1.9bn in Brady debt (rescheduled debt linked to US treasuries) and replace it with uncollateralised 15-year maturity and 20-year fixed rate Euro-bonds, will set a benchmark for longer-dated Philippine corporate debt OVERTICALS. "Philippine corporate debt

is now well recognised and well received in Europe and elsewhere," said Richard Luddington, head of J P Morgan's emerging debt gyndicate in London. "On a comparative basis, most Philippine issues are trading towards the quality end of Indonesian corporate debt. and at much tighter rates than equivalent Mexican

GOVERNOR GABRIEL C. SINGSON August 1996

integral role in the Central Bank of the Philipines, the Philippine National Bank and the Asian Development Bank.

In 1993, he was appointed as the first Governor of the Philippines' central monestary authority, the Bangko Sentral ng Pilipinas. He also holds the positions of Governor of the International Movemey Fund for the Philippines and Alternate Governor of the International Bank for Reconstruction and Development.

In recognition of the achievements of Mr. Singson and the Bengko. Scattal in furthering the country's economic progress, the Philippine House of Representatives, in an unprecendented move, unautmously lopted on 8 June 1996 House Resolution No. 49 commending Mr. Singson for his outstanding work.

Mr. Singson is a firm believer in markets. As central bank governor, be has been at the forefront of foreign exchange and banking

Q From your perspective, as Governor of the Bangko Sentral, ... please give a brief resume of the country's reform efforts.

The basic objective of economic reforms that have been vigorously pursued during the administration of President Fidel V... Ramos is to open up the economy to global competition and make it stronger, sustainable, and market-oriented.

We have eliminated import quotas, lowered tariff barriers, liberalised foreign investments, de-monopolised such key sectors as transport and communications, opened up infrastructure ent to the private sector, deregulated fuel prices, and rigorously implemented a wide range of financial sector reforms. A key financial reform was the liberalisation of foreign exchange gulations in 1992. This has culminated in the comp of all current account restrictions and our acceptance in 1993 of Article VIII obligations as a member of the International

We have also reformed the banking system highlighted by the full We have also reformed the banking system highlighted by the full rehabilitation and grant of policy independent to the Bangko Sentral ng Pilipinas (the central bank) in 1993 and the opening up of the local banking system to direct foreign competition in 1994. This paved the way for the lowering of reserve requirement from 22 percent to 15 percent. We have also allowed 10 new foreign banks to put up branches and an unlimited number to establish Philippine subsidiaries or enter into joint ventures up to 60 percent

Q What is the role of the Bangko Sentral in economic reform?

A The Bangko Sentral has two key roles to play which are directly The Bangko Sendal miles. First and foremost, we have a major role in preserving monetary stability. By that I mean achieving low inflation and a stable but competitive exchange rate. Monetary stability is essential towards ensuring the best pos chances for an orderly transition to more market-oriented arrangements. Without basic monetary stability in place, there is much greater danger of financial imbalances and excesses that dimately destroy the credibility of the whole reform process. Second, as chief regulator of the strategic banking system, the Bangko Sentral plays a leading role in elevating the financial Bangko Schura piays a hadards both in efficiency and safety. In-system to international standards both in efficiency and safety. Inline with this, we have deregulated domestic banking operations including branching and investment rules to make banks more competitive. We have, at the same time, increased minimum enpitalisation requirements to strengthen individual banks for

re intense competition. Q How independent is the Bangho Santral; why is its independence

A The policy independence of the Bangko Sentral ng Pilipinas is guaranteed by no less than the Philippine Constitution (Article XII, Section 20). And under the 1993 enabling law which setually established the Bangko Sentral, one of the most important features promotion its policy independence is the dominance of the private sector in the policy-making Monetary Board. Five out of seven members come from the private sector. They serve on full-time basis and enjoy a fixed term of 6 years. Only one member is a Cabinet member designated by the President and he is not even the Finance Secretary. The Governor, who acts as Chairman,

completes the Monetary Board. The independence of the Bangko Sentral gives it the ability as well as the all-important credibility to conduct monetary policy in a manner that best ensures the stability of the value of the peso. In the past, when the predecessor Central Bank of the Philippines in the past, when the predecessor country pasts of the Printpolice was not as independent, effective monetary policy was often compromised by quasi-fiscal concerns such as subsidising certain key imports through multiple exchange rate arrangements, giving preferențial credits, and subsidising credit risks. As a result, the Control Bank emissi up with imperfunctial changes that had so be partly compensated by taxing through high reserve requirements, the banking system. Moreover, the residual losses hampered the ability of the Central Bank to conduct open market operations.

Q What is the Bangko Sentral's exchange rate policy? Pursuant to a floating exchange rare policy, the Bangko Sentral has generally allowed market forces to determine the exchange rate. Nonetheless, we don't besitate to intervene in the foreign exchange market to present excessive fluctuations in the exchange to keep adjustments on the exchange rate smooth and

To example, for the year 1994, the Bangko Scotral purchased foreign exchange totalling \$2.9 billion in a bid to absorb the heavy inflows of foreign capital into the country and mitigate the appreciating trend of the peto. In contrast, during the first three months of 1995, the Bangko Sentral became a net seller of foreign exchange amounting to \$173.4 million when the peso was hit by the contagion effects of the mexican crisis and the Barings

Q The Philippine economy has performed very well in recent years.

growing faster, achieving lower inflation and avoiding bulance
of payments problems. How sustainable is the economic recovery?

The current economic recovery is markedly different from past short-lived recoveries in terms of the structural underpinnings. Most significantly, growth is mainly export-led. Last year. merchandise exports led by manufacturers, expanded by nearly 29 percent in US dollar terms. This year, for the first 5 mouths, export growth is currently running at about 20 percent. Investments in infrastructure and production facilities by both the government and private sectors have also dramatically picked up to address long-standing backlogs and to build-up economic potentials. This has been most apparent in the rapid solution of the power crisis in the early 1990s but the sectoral coverage is actually wider. Electronics exports have also benefited in a big way from large-scale foreign investments to build facilities.

As a consequence of liberal reforms and greater political and economic stability. foreign investment inflows have also dramatically increased from just \$0.8 billion in 1991 to nearly \$6.8 billion in 1995. For the first quarter of 1996, investment inflows have already reached \$2.6 billion.

Faster economic growth is also built on more solid financial footing. Gross national saving has recovered from 17.4 nercent of footing. Gross national saving has recovered from 17.4 percent of GNP in 1993 to 21.5 percent in 1995. A major factor behind this is the marked turnsround in government finances, with the National Government starting to register overall fiscal surpluses beginning in 1994. The external position is also much stronger, reducing the chances of a growth-inhibiting foreign exchange crisis. In 1995, the Philippines limited the current account deficit to 2.5 percent of GNP, one of the lowest in the region. The official international reserves is also at an all-time high of about \$10.5 billion, conjugant to 3.2 margin impacts of analysis. equivalent to 3.3 months imports of goods and services.

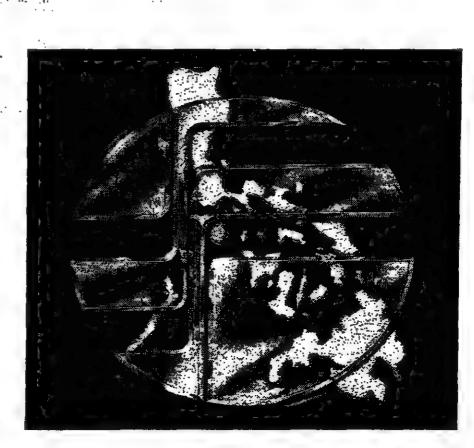
And last but not least, inflation remains under control. After a temporary spike to double digit in September 1995 as a result of a rice crisis, inflation is back to single-digit at 7.9 percent as of about 6 percent by December 1996.

Bangko Sentral's lifting of the morntorium on new banks as well as the granting of ten new foreign banking licenses have instilled greater competition in the industry. What is the next-phase reform of the banking industry and what is the timetable

Our efforts in banking reform are now shifting towards further modernising our banking laws, including our laws covering capital adequacy. We have formed a high-level banking commission to formulate proposed changes to the General Banking law that will, for example, allow us to adopt a form of the BIS capital adequacy

Finally, we remain firmly committed to lower the reserve requirement to a level competitive with those prevailing in the region. The current reserve requirement is 15 percent. We like to eventually see it go down to single digit level. We would like to do this as soon as possible subject to abuse. We have therefore recently issued comprehensive rules covering the derivatives activities of banking institutions. These rules, which are by the way based on current international best practices, are quite liberal in the sense that banks meeting minimum productial and capability standards are allowed to undertake all kinds of foreign





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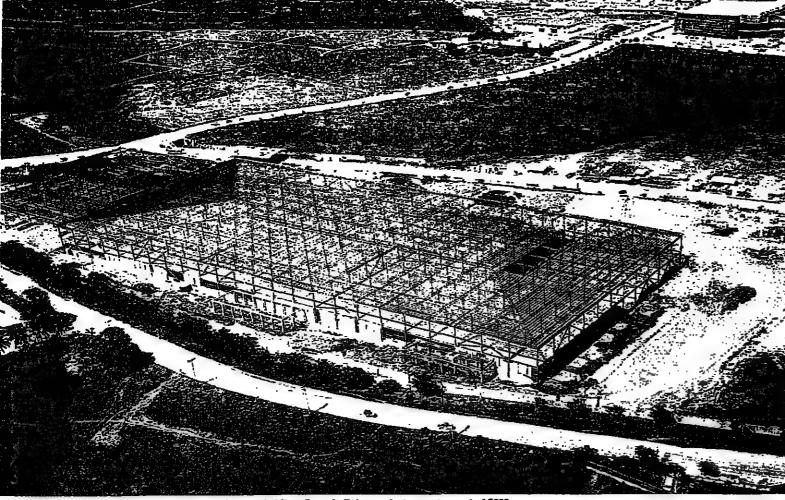
 Lead-managed over US\$1.3 billion in international equity offerings since 1994 for Philippine companies and advised on mergers and acquisition deals totalling US\$400 million in 1993 and 1994

*Euromoney 1993, 1994, 1995, 1996



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Shell geared up for the deregulation drama when it upgraded its refinery in Batangas last year at a cost of \$600m

Electronics: by Anne Counsell

ssembly line has ambitions

on from selling our sweat'

The whirr of computer disc drives at the end of a production line and the buzz of round-the-clock semiconductor assembly plants have made the electronics sector the fastest growing in the Philippines economy.

From almost nowhere in the export ranking in 1992, the sector constituted around 46 per cent of all exports in 1995 with a value of \$7.6bn - more than the country's entire exports in 1988. In the first six month of this year, electronics exports had risen 50 per cent compared to the same period in 1995 with sales of \$4.9bn. Electronics plants have

also been the conduit for large investments by US, Taiwanese, Korean and Jap-

Export destinations 1995

Electronics

'We need to move anese producers of computers. computer parts and peripherals. There are now more than 300 electronics companies in the Philippines, with almost monthly announcements of further arrivals, plant upgrades or

joint ventures in the sector. While electronics have been an important component of the country's impressive growth figures, they may also prove to be one of the sectors on which the tiger "cub" economy cuts its teeth as the Philippines strives to develop its industrial base and move up the technological ladder.

"We need to move on from selling our sweat," as Francis Ferrar, president of the Semiconductor Electronics Industry Foundation, puts it. Around 80 per cent of the components for the electronics sector are imported, and the Philippines is largely an efficient "assembly line", with the products shipped for export after compara-tively low value-added input of between 15 and 30 per

Mr Ferrer would like to see the industry moving up to more specialised, higher levels of technology, with more research and development, making the transition from a low-wage assembly operation to one producing and developing advanced technology. This, coupled with the utilisation of more local components, could lift the value-added component to around 40 per cent, he

There are signs this shift has already begun. Earlier this year, Intel of the US invested \$350m in flash memory production and the expansion of a Pentium chip testing plant, one of three in the world where it assembles

> gic investment. There have been expressions of interest by local companies exploring the possibility of bringing in investors and strategic part-A keep advocate of a wafer plant is Gateway Electronics Corporation, which has its own semiconductor packaging plant in Cavite, 25km south of Manila, where it has established a successful

for exports, has attracted nine big high-tech investors, including Intel with its Pentium assembly and testing operations, Cypress, Asahi-Pentax, Analog Devices and Hitachi. Together they have pledged investments of over \$1.6bn, or about 60 per cent of the semiconductor investments in the Philippines in

will accommodate about 20 electronic, microelectronic and support companies. Andrew de los Reyes, the president of Gateway Property Holdings, says the business park is well positioned to capitalise on the global demand for chip assembly and packaging. Gateway itself has established a 51,000 sq m plant for semiconductor assembly and testing, and plans to expand into board assembly and testing facilities

Companies are broadly optimistic that the Philippines semiconductor and mer electronics sectors will continue to grow, although the pace may slacken off due a regional slowdown in demand and the large inventories held by electronic companies worldwide. The Philippines, however, has been cushioned from the regional downtrand in the electronics sector due to its broad export profile over one third of electronics exports (34 per cent) are destined for the US, 18 per cent to European markets, 21 per cent to other Asean countries, 9 per cent to Japan and 20 per cent to other markets.

Oil sector: by Anne Counsell

Deregulation hurts as it kicks in

Demand is high and rising, but competition gets fiercer

There were howls of protest from Jeepney and taxi drivers when the price of petrol was increased by 50 centavos a litre in mid-August. marking the start of the much delayed automatic pricing mechanism (APM) and the transition towards deregulation of the Philippines oil sector

The political sensitivity around freeing prices in a petrol had caused the most reform-minded in government to baulk, resulting in several aborted attempts last year to raise prices and a slippage in the oil liberalication timetable.

Full deregulation has now been scheduled for March 1, 1997, following implementation of the APM, under which domestic pump prices are set using an average of Singapore Posted Prices (SPP) over 30 days.

Further price rises during the transition phase have been capped at 50 centavos a litre, with any excess to be absorbed through the Oil Price Stabilisation Fund (OPSF), a government buffer chanism designed to even out fluctuations in domestic prices due to international oil price changes and the peso's exchange rate.

"We will not be shedding any tears in March," said Mr Monico Jacob, chairman of Petron Corporation, the privatised Philippine national oil company with a dominant 41.8 per cent share of the market. "The costs (of the fund), have been enormous. Deregulation will bring greater benefits to consumers through increased competition, which we welcome.' Petron, which forecasts that demand will rise to 600,000 barrels per day (bpd) by 2005 from the present total domestic output of 392,000 bpd, is planning a new greenfield refinery with capacity of between 100,000 bpd and 200,000 bpd to meet the projected dema

Petron also plans to by opening 40 petrol sta-

In the interim, Petron has completed a project on one crude unit which adds 10,000bpd to its former capacity of 155,000bpd. Work is under way on another crude unit to add a further 15,000bpd, bringing Petron's total refining capacity to 180,000bpd by the end of 1997.

Shell Pilipinas, the subsidiary of the Anglo-Dutch multinational, is similarly upbeat about the advent of liberalisation. Reiner WIIlems, chief executive of Shell companies in the Phinew entrants.

Shell, which has a market share of 31 per cent, upgraded its refinery in Batangas in 1995 at a cost of \$600m. The upgraded refinery was projected to run at full capacity by 2000, but spiralling demand has meant it has already hit its 155,000bpd capacity, says the refinery's general manager Tim Hake. Shell's sales rose 17 per cent in the first quarter of 1996 against the previous year and the company is boosting its retail operations with plans to open 50 new petrol stations a year on the back of high

growth in car sales. Calter, a subsidiary of Texaco of the US, is less sanguine about prospects in the oil market post-liberalisa-tion. The third large player in the Philippines with 27 per cent of market share,

> New arrivals could well undermine the dominant three: Shell, Caltex and Petron

Calter has abolved plans to double capacity at its 65,000bpd refinery in Batangas. Texaco shareholders postponed a decision on the proposal, citing the narrow import duty differential between crude and refined petroleum products. Simi-larly, Mobil is not pursuing investment in a refinery but is focusing on retailing its inbricants and all additives. It is investing between \$50m and \$70m over the next five years to establish a network of service stations, predominantly in the Manila area, where 80 per cent of its market is concentrated.

While their dominant market position may give Shell, Caltex and Petron a firm foothold in the retail sector, new arrivals could undermine their position as develop its retail network suppliers. The National Power Corporation (Napobility of sourcing its fuel requirements from outside the three domestic refineries and is studying an offer from San-Francisco based Chemoil Asia to supply 500,000 barrels of fuel oil equivalent.

There is less uncertainty in the market for liquefied petroleum gas (LPG), which is rising by a healthy 15 per cent a year as households switch from kerosene, wood and coal for their heating and cooking requirements. LPG is also increasingly being used in industrial

way to meet a 1998 schedule

Petrocorp, owned by Sumitomo, BASF of Ger-

many, PNOC, Thai Petro-

chemicals industry (TPI) and

local investors, is halfway

through constructing a poly-

propylene plant at a cost of \$130m. Initial output will be

160,000 tonnes a year, rising

to 225,000 after three years.

Scheduled for completion in

1997, the plant will use tech-

nology from BASF.

to start_operations.

lippines, predicts a rise in applications. To meet demand, Shell is importing and the arrival of several refrigerated propane and butane and combining the gases under pressure at its Eastern plant and Petron is boosting output of its top selling LPG brand - Petron Gasul. A cluster of potential entrants is also eyeing the Philippines LPG market; Liquigas Philippines is contemplating a \$28.5m LPG plant in Mariveles, Petronas Energy plans a \$18.8m plant in Mindanao, Petroline Resources a \$19.6m facility in Luzon while Seaoll Petroleum is focusing its proposal for a \$56.5m plant in Metro Manila. SVH of the Nether-

lands and Total of France are also considering an LPG joint venture. The outlook for natural gas, however, is clouded by pricing wrangles and uncertainty over the market for gas from the Camago-Malampaya fields, under development by a Shell Philippines Exploration and Occidental Philippines (Spex/Oxy) joint venture. As a prerequisite to developing the field and underwater

pipeline, Spex/Oxy want to secure commitments for when land deliveries come on stream in 2001. The consortium is pursuing plans to convert the mothballed Bataan nuclear power plant into a 1,500MW combined cycle gas powered station, swaiting approval from the Sheli parent company and a power purchase agreement with Napocor.

Spex/Oxy had hoped to supply the 1,200MW power plant at Ilijan, Batangas, where Consolidated Electric Power Asia (Cepa) is contesting the re-tendering pro-cess after its initial winning bid was disqualified. Once the contract is awarded, LNG for the plant could be supplied by imports, compelling Spex/Oxy to provide a highly competitive alterna-tive once it had completed development of the gas field, pipeline and other facilities.

There is a similar problem with LNG supplies for First Ges Holdings (a joint ven-ture between First Philippine Holdings and British Gas), which is to construct a 900MW gas-fired plant in Batangas, scheduled to come on stream in 1999, before the Camero onshore. First Gas, which is also planning to develop LNG networks, has been negotiating with Petronas of Malaysia after breaking off talks with Spex/Oxy for the

gas supply contract. Although demand is high and rising in the oil, petrol and gas markets, existing competition from both domestic players and imports is fierce. The advent of liberalisation and new entrants in all sectors of the market is set to enliven what has been a highly reg-

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■ Petrochemicals: by Anne Counsell

Concern persists that demand will not keep up with supply

and tests chips before ship-

ment. Texas Instruments,

based at the government-

owned Baguio City Export

Processing Zone, plans a

\$100m expansion, part of

which will be a modern facil-

ity to test its chips used in

cellular phones, hard disc drives and notebook comput-

There is also a growing list

of companies sending local-

ly-hired staff abroad for spe-

cialised training in electron-

ics and engineering. In

addition, the country has been experiencing a "brain

gain" as qualified and expe-

rienced Filipinos, who have

to take up senior posts in the

country's expanding elec-

There is also fairly serious talk about the possibility of the Philippines having its

own wafer fabrication plant

to produce the thin pieces of

silicon from which chips are

cut. The going rate for wafer

plants is more then \$1bn.

privately-owned industrial

state for electronics manu-

facturers. The Gateway Busi-

ness Park, which qualifies as

a designated "special zone"

tronics sector.

m working abroad, return

From a low base, the petrochemicals sector is poised to leapfrog into a range of specialised produc-tion activities. Between 1991 and 1995, the Board of Investments (BOI) approved 17 petrochemical-related pro-jects, including the production of base chemicals (ethylene and propylene) and their intermediates - polyethylene, polystyrene and polyvinyl chloride (PVC). Industry analysts question

whether there is sufficient local demand to mop up the projected output, particularly as export opportunities are limited by competition from established plants in neighbouring Asean countries. If all the proposed projects materialise, domestic production of polyethylene, the world's most common plastic, will top 420,000 tonnes a year by 1998. Domestic demand in 1995 stood at 217,000 tonnes. The picture is similar for polypropylene, a tough scratchresistant plastic used in casings. Projected capacity for 1998 is over 400,000 tonnes. against demand of 194,000 tonnes in 1995.

Melito Salazar, undersecretary at the BOI, is confident that the ready availability of the plastics will serve to stimulate demand. "On-going growth in downstream plastics fabrication

and textile industries, coupled with strong growth in the Philippine economy, will ensure markets for our petrochemicals industry," he said. The BOI forecasts demand for polyethylene will rise 9.2 per cent between 1995 and 2005, while that for polypropylene will be up 8.4 per cent in the same period.

Sumitomo of Japan, which is involved in a polyethylene venture with foreign and local partners, is even more optimistic, predicting double-digit growth in demand. Sumitomo expects the parallel development of plastic processors and fabricators in the booming car assembly and electronics sectors to provide a ready market for products from the

downstream plants. High domestic demand is essential if the cluster of proposed developments is to succeed. Philippine petrochemical exports will hit high tariff walls in the region and will have to compete against protected pro-ducers in Indonesia, Singapore and Thailand. Tariffs in the Philippines are 10 per cent, compared to 30 per cent for plastic imports in Thailand. In Indonesia, the petrochemicals industry is protected by a 20 per centtariff and an import surcharge of the same size.

The Philippines' headlong foray into petrochemicals is centred around two complexes, both located near the existing refineries operated by Petron, Shell and Caltex, which will supply the feedstock for naphtha crackers of 1996. The cracker is schedat each site. The refineries produce a total of 400,000 tonnes of naphtha a year, well below the 1.2m tonne a year intake required by the crackers, with the shortfall

Green light for 17 new projects

to be met by imports.
One petrochemicals complex costing over \$1bn is being lead-managed by the state-run energy group Philippine National Oil Company (PNOC). Located on a 550 ha site adjacent to the Petron refinery in Limay, integrated petrochemical processing will include: A \$600m naphtha cracker

with a capacity of 450,000 tonnes a year, to be financed with 40 per cent equity from PNOC, government and financial institutions. Downstream investors will utilise the vapour cracker's output of ethylene, propylene and butylene. Loans will be sought for the remainder following completion of feasibility studies before the end

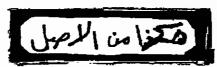
Petrochemical demand

435 194 38 93 15 10 gr - 15 THE PARTY OF THE P

uled for completion in 2000. tries (PRI) is planning to A \$250m polyethylene erect a \$70m, 60,000 tonneventure called Bataan Poleper-year PVC facility on thylene Corporation has 6.5 ha. Partners in the venbeen set up by BP Chemicals ture are Mabuhay Vinyl Corof the UK, the Petrochemical poration (Philippines), Bank Development Corporation (part of PNOC) and Sumi-tomo of Japan. The plant of the Philippine Islands, and Tosoh and Mitsubishi, boh of Japan. • Itochu Corporation of Japan is considering buildwill have a capacity of 200,000 tonnes and will use BP Chemicals' Innovene technology. The next phase of project financing and engineering design is under

ing facilities for the production of 120,000 tonnes a year of low density polyethylene, 200,000 tonnes a year of vinyl chloride, and 400,000 tonnes a year of styrene.

A second petrochemicals complex is under development in Batangas, 140km south of Manila, where the Shell and Caltex refineries are sited. The project is being developed by J G Summit Holdings, a joint venture between Marubeni of Japan (20 per cent) and the Gokongwei Group of the Phi-lippines (80 per cent). Work is under way on a \$600m naphtha cracker with a capacity of 400,000 tonnes a year which will feed downstream plants, including a 175,000 tonnes-per-year polyethylene facility and a 180,000 tonnes-per-year polypropylene plant, both of which are scheduled for completion in late 1997. The petrochemicals venture plans to export half its polyethylene and polypropylene products. In addition.
J G Summit is considering setting up production facilities to use acetic acid and synthetic rubber from the



Trying R

Investment: by Anne Counsell

lishness survives 6-month decline

Dip disguises 15 per cent rise in approved projects

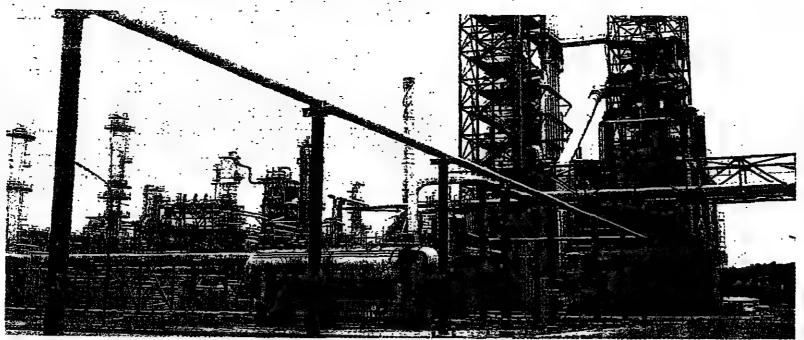
A decline in foreign direct investment (FDI) figures for the first half of 1996 belies the visible manifestations of lively economic growth; a proliferation of industrial estates, rapidly rising exports, and foreign brand names on billboards and advertising hoardings.

The Board of Investments (BOI), which oversees projects eligible for incentives, registered a 46 per cent fall in the level of investments. from P146.56bn in the first six months of 1995 to P79.53 for the same period in 1996.

Special economic zones, former leaders in the investment attraction league, also fared less well this year than last. Total approved investments from new projects and expansion fell 18 per cent from P15.02bn to P12.38bn for the period. However, other investments from services enterprises, development costs of new zones and additional facilities amounting to P3.13bn were not included in the figures. Some economists believe the reported FDI levels may be lower than the reality due to such omissions and some under-estimation in the FDI figures for build-operatetransfer projects (BOT), where the machinery is counted as an import but the equity investment is not.

The star performers were service developments, elative newcomers, the energy and tourism. He said relative newcomers, the Subic Bay Metropolitan Authority and the Clark Development Corporation, where investments soared by 35 per cent and almost sevenfold (669.5 per cent) respectively, although from a low base, reflecting concerted efforts to redevelop both the former bases oper-

ated by the US military.



undersecretary at the BOI, is not displeased with the figthe development of four government-owned and 15 privately-owned industrial estates or "special" zones, is similarly upbeat about prospects for further investment. PEZA has plans to develop an additional 10 economic zones at a cost of P8bn to tap

into the steady interest from

neighbouring countries seek-

ing investment opportunities

ries covering export projects. in the Philippines. Asian investors have been at the forefront of the investment rankings, accounting for six of the 15 largest foreign investment projects between 1991 to 1995 in the manufacturing, utilities and tourism sectors. At the ised; and expressed confidence that FDI levels would PEZA Rosario zone in Cavits, there are 58 South Korsan companies producing a eralisation continued and diverse range of manufactured goods from toys, once uncertainties over tax apparel and stationery to electronics and components.

umbrella organisation for Taiwaness presence at Subic Bay where 38 companies have expressed interest in an industrial park being financed by Taipel. Acer is the anchor Taiwanese tenant at Subic with its motherboard assembly plant. At the Laguna technopark 40km from Manile, Honda's

establishment of a car assembly plant for Accords and Civics has been a mag-net for a dozen of its related components suppliers. Of the 68 companies at Laguna, half are Japanese. Initially drawn to the Philippines' special export zone because of its four-year tax holiday, no duties on imports or exports and streamlined customs procedures, the majority of companies are unequivocal about another attraction the country's inexpensive, English speaking and highly trainable work force. Massaki Yanagita, the managing director of Matsushita (Philippines), says the company set up operations in the country to help offset the effects of the high yen. However, the quality (30 per cent of employees at the plant are college leavers) and efficiency of the labour force was a factor in Maisushita's decision to relocate all its

facturing operations, apart from research and development, to the Philippines. Almost as widespread as

investors' praise for the workforce is their criticism of the infrastructure, notably urban road systems. There is some concern that the infrastructure may not be able to cope with the continuing rate of industrialisation, making it more of a potential handicap than a mere frustration.

Although the country has had acclaimed success with its build-operate-transfer (BOT) programme in the energy and water sectors. noticeable improvements in the transport sector have been less visible. "We are still chasing our tail to catch concedes Marc Dumal at the Ministry of Public Works and Highways. The toll-road construction programme is progressing despite teething troubles over pricing and one operator running into financial trouble. PT Citra of Indonesia is constructing a 18km elevated toll-road in Manila, while a Malaysian group recently won a \$300m con-tract to build a coastal

expressway to the south of

telecommunications manu- Manila. Negotiations are

also under way with foreign and local operators for a \$700m road to Subic Bay and a toll road to the industrial area of Batangas. The government is reviewing its policy on investment

incentives for priority projects as part of the ongoing tax reform bill and in response to grumbles from both economists and investors over the present system. Suggestions to scrap the menu of tax holidays and move towards a conventional tax-based system, as in Hong Kong, are under consideration. Tax exemptions from between three and five years are only of benefit to projects generating profits from the outset, and are of no use to capital intensive ventures. Under review is a system based on accelerated depreciation and net loss carry forward (Nolco), whereby losses incurred in the first years of operation could be offset against tax on profits in the future. The government is also aiming to reduce tariff protection rates from 10 per cent to 3 per cent. "There will be enough other incen-

tives without protection,'

said Mr Salazar

PROFILE Former US bases

Battle for tourists

While Clark may lack the could dampen the allure. high profile of its sister at good golf course and a betbases, vacated by the US military in 1992, are vying for investments in tourism erregial here

Both Subic and Clark eniov free-port status and tax concessions, factors which have put them on the investment map for industrial, commercial and service projects. Subic got off to a head start with several high-profile deals, and has been a magnet for over 200 projects or businesses in all sectors, against 148 However, the Clark

Development Corporation (CDC) is beginning to gain ground. In the first half of 1996, the CDC generated investments amounting to P8.08bn, against P6.62m allocated to the Subic Bay Metropolitan Authority, which operates the free port. In distribution terms, Clark drew 7.6 per cent of total investments in the Philippines compared to 6.2

per cent for Subic. The focus is now moving towards tourism. Both have existing hotel and gambling facilities, duty-free shopping, tours and sporting activities - not enough, however, to encourage visitors to put either place at the top of their holiday destination list. Subic and Clark both have plans to build on their existing resort facilities and to develop a range of attractions including sky-diving, theme parks, entertainment complexes and sporting facilities.

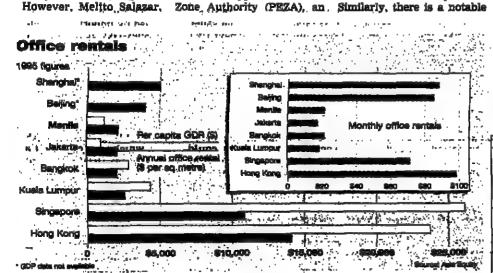
Subic, with its access to the South China Sea, has an obvious advantage for water sports, a yacht club. wharf projects, sailing facilities and a marina, although less than picturesque port developments and oil storage facilities

Clark has grand plans of Subic Bay, it does have a its own. The CDC plans to landscape the Bayanihan ter airport. These things Park entrance to include count when the former artificial lagoons, an aviary, amphitheatre and picnic park at a cost of P40m. The aim is to provide an impressive and beckoning gateway to the facilities inside, a feature of which will be the Centennial Exposition Park, scheduled for completion next year, to tennial celebration of its independence. It may happen almost a year after Subic's jamboree in hosting the Asia Pacific Economic Forum, but CDC officials believe it will help make Clark a focal point for the nation.

Clark, with its better road access from Manila and 33,600 ha of land for development against 14,000 at Subic, has the right ingredients to fulfil its investment and tourism ambitions. A key to realising its full potential, however, largely rests on a political decision over which airport facilities to upgrade first: Clark or Manila. Clark, which is already one of the largest airports in Asia with two 3.2 km runways capable of handling a Space Shuttle landing, aspires to become the country's premier airport. Philippine Airlines will begin operations from Clark next month to complement existing scheduled and charter flights by

SEAir and Air Ads. However, the Asian Emerging Dragons consortium, charged with developing the airports, is leaning towards proceeding with a approximately \$400m termi nal upgrade at Manila, deferring the Clark revamp until 2002. CDC officials believe this is too late and could act as a brake on the zone's continuing growth.

Anne Counsell



ures. Noting that the 1995

levels were inflated by one-

off large investments in

refined petroleum, petro-

chemicals, cement and tele-

communications. Mr Salazar

highlighted the increase in

the number of BOI approved

projects, up 15 per cent from

201 to 231 for the period, in

the board's approved catego-

manufacturing industry,

flagship infrastructure and

the generally favourable

investment climate in the

country resulted in 90 per

cent of projects being real-

improve as the process of lib-

The Philippine Economic

reform were resolved.

Property: by Anne Counsell

Boom continues

The question remains how much longer this headlong dash can continue

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Now in its fourth year, the Philippine property boom shows no sign of abating. Construction sites abound in the central business districts of Makati and Ortigas, where vacancy rates are zero due to the high demand for quality office space; and land prices have doubled again over the past 12 months.

The question on everybody's lips is how much lon-ger can this headlong dash continue? Property consultants and developers broadly agree that considerable pent-up demand, coupled with an influx of foreign companies seeking to open regional offices, will sustain upward momentum for at least the next two years, and probably up to 2000.

A recent Colliers Jardine report on regional property trends noted that the Philippines property market cycle still has room for growth due to its time lag behind markets in Thailand, South Korea, Indonesia, Malaysia and Taiwan. Separately, Richard Ellis associates highlighted the competitiveness of rents in Manila (\$31/ sq m a month compared to \$150/sq m in Bombay. \$103/ sq m in Hong Kong and \$467; sq m in Taipei). There is general consensus that the almost million sq m of grade A office space scheduled for completion in Makati in 1998 will be snapped up, since existing grade A office buildjungs provide only a woefully

madequate 372,205 sq m. The outlook for Ortigas is somewhat mixed. Although residents such as the San Miguel brewery, the Asian Development Bank and large retail outlets, including the Megamall, are based in Ortigas, large areas are still underdeveloped – and unlike

Makati, it has not established itself as a premier business address. Office space in Ortigas sells at between P60,000 and P70,000 a square metre, compared to up to P100,000/sq m in Mak-ati. Heavy traffic, a lack of parking and inadequate infrastructure are viewed as limiting factors in both Mak-

ati and Ortigas. There are eight purposedesigned, integrated centres in various stages of development being touted as possible alternative business dis-tricts. Even if they do not supplant Makati and Ortigas, they will transform the city's skyline, layout, and

character. One contender for the crown of new premier business district is the Filinvest Corporate City (FCC) on a 244 ha site, about the size of downtown Manhattan in York, 10 km south of Manila's international airport and 15 km from Makati. Land sales at the site began last year, and with prices ranging between P55,000 and P80.000 they are only 14 per

cent of those in Makati. Also in the running is the redevelopment of a military base bordering Makati. The 214 ha site, Fort Bonifacio, is being developed by a 17member private consortium led by Metro Pacific, the Philippine arm of Hong Kong-based conglomerate First Pacific. Members of the consortium have signed memoranda of understanding enabling them to sellsites, lease or develop them with other contractors.

The master plan for the site has been approved, work is progressing on the design and development, and initial civil works for some sites has begun, according to Mr Bernard Durack, the managing director of operations at Fort Bonifacio Development Corporation. It will include a Bay, Manila airport and outlying industrial development ful," said one analyst.

areas. Dubbed a "city within a city," Fort Bonifacio will group commercial and residential space, followed by schools, a university, retail outlets, hotels, leisure facilities and a golf course.

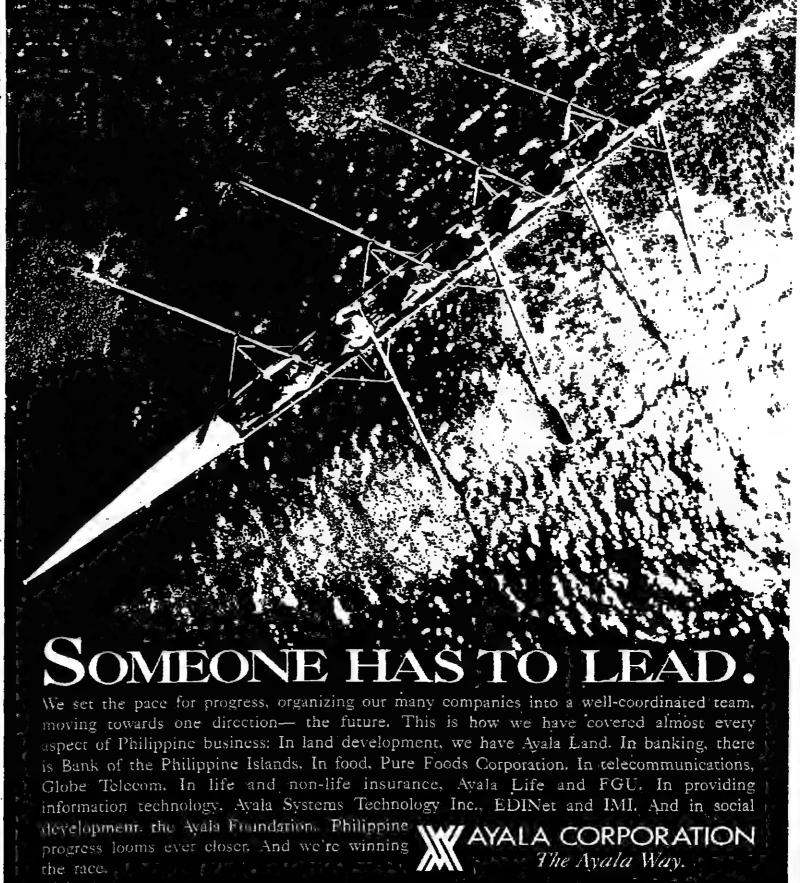
The corporation has begun pre-selling land lots at P170,000 to P180,000 a square metre, more than double the breakeven cost and five times the value of the consortium's controversial bid last year. Ayala Land, an established local real estate developer, which bid a total of P28bn for the Fort Bonifacio contract, came a distant second to Metro Pacific's P39bn offer, at the time viewed as a inflated and subsequently blamed for fuelling steep rises in land costs.

Despite the pent-up demand for new office and residential space, there is some apprehension about the longer-term prospects for the Philippine market. One limiting factor, particularly in the middle residential market, could be an undeveloped mortgage and lending system, according to analysts. Some analysts also believe the total volume growth of new space, both office and residential, is close to peaking, and could turn the market from a seller's market into a buyers one. This has also given rise to predictions of rising vacancy rates in both office and residential developments over the next 18

may be an oversupply of residential housing, condominiums and flats, which has prompted some developers to begin offering purchasers spread payments. There is no talk of a property. "crash", rather a realignment or levelling off of prices, with the possible exception of niche or specialist sectors. "Two years ago, transport interchange to link you could invest anywhere the site to Clark and Subic and make money, now you need to be a bit more care-

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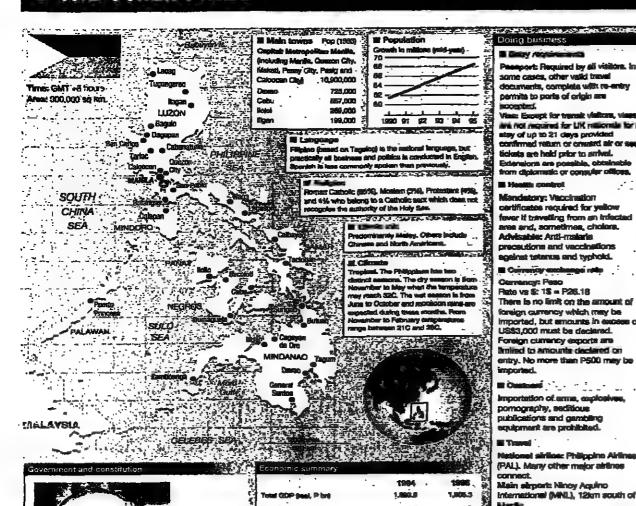
There is also concern there



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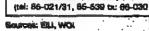
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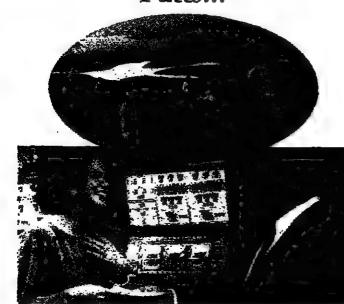
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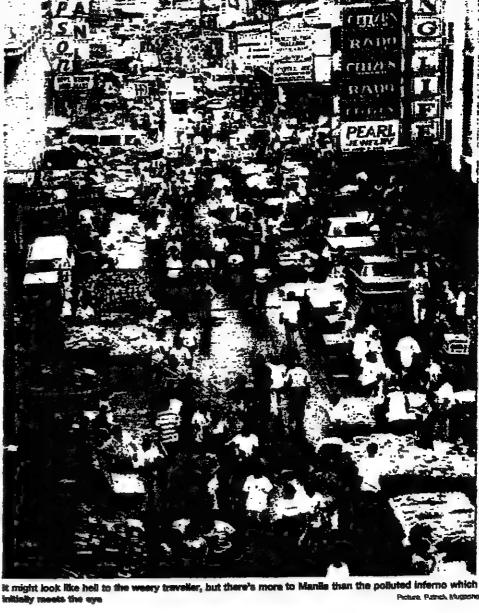
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Travel by Edward Luce

Madness in the streets of Manila

What starts off looking like a holiday in hell turns out to have a quirky charm

Just arrived in Manile? Been waiting two hours for your luggage? Spent three hours in a traffic jam en route to trict - thousands of white the hotel? Don't turn back, graves stand in stark, protes-Anyone can admit defeat and plenty do. It might look other graveyards. Block out like hell. But remember, the rest and it could be Flanthere's more to Manila than the polluted inferno which meets the eye.

Aesthetically, of course, it's not up to much. If you're looking for architectural reminders of the Spanish colonial era, prepare to be disappointed. The cobbled plaza is long out of fashion. Don't bother hunting too hard for your favourite paella dish either. You're more likely to get a mouldy hamburger - though to be fair, there are some great European and Chinese restaurants nowadays.

With a few notable exceptions, the secrets of Manila are decidedly not to be found in its buildings or its cuisine. Nor can they be located in the city's bookshops (unending tomes of romantic pulp and "How to be a successful businessman" do-itourself guides) or indeed its "girlie bars" Where overweight foreigners chat up Filipina teenagers.

Manila's charms don't leap off the postcard to greet you. They have to be hunted down in unlikely corners and in the most serendipitous of circumstances. Take the Manila Memorial Park, final resting place of many of the country's great and good, including Ninoy Aquino, husband of former president Cory Aquino, gunned down on his return from exile in 1982.

Manila Memorial Park and adjacent Loyola Park's grandiose catholic tombs stretch mile after mile, Gothic row after row. They are truly cities of the dead. Some of the tombs reach two storeys high. Many are thoughtfully equipped with electricity and running water for the comfort of the deceased. And some are actually inhabited by descendants of the dead who no doubt save cash, and derive comfort, from living inside the family tomb.

it would parhaps be bordering on hyperbole to recommend a cemetery crawl around the city's memorial parks. But these are just two of many. The Chinese cemetery is another eye-opener, if visited on the relevant ancestor-worshipping dates. The combination of catholicism and Chinese spiritualism is, to say the least, unusual. Imagine genuflecting to the Virgin Mary then burning a few "after-life" dollar bills just in case Rome was mistaken.

If you want a bit of quiet- course, to the annual visit of ism after that disorienting the Spanish trading galleon experience, head towards the American War Graves cometery next to Forbes Park, a "village" (urban suburb) for the rich and lucky. Situated on a hill overlooking Bonifacio - a 240 ha plot which is being developed as Manila's 21st century business dis-

tant contrast to Manila's ders. The experience is a poignant reminder of what happened to Manila in 1945. Indeed, most of the blame for the town's lack of struc-

ture or focus can be laid at the door of the retreating Japanese armies in 1945 who spurned General Douglas MacArthur's offer to declare Manila an "open city". The upshot, after an orgy of levelling and co-ordinated sabotage, was the worst damaged allied city barring Warsaw. Unlike Warsaw, though, Manila had very little agreed 'national" culture to subsequently draw upon. The archipelago's jumble

of Malay, Chinese, Spanish and even Indian ethnic groups in part explains the country's elusive national identity. As the only pre-dominantly Christian country in east Asia and the only state, with the exception perhaps of Malaysia and Singapore, where the de facto national language is English, the Philippines defies convenient typecasting. As by far the largest city in the country with an endless accretion and a population approaching 12m, Manila aptly symbolises this jumble.

A quick visit to Mega Mall next to the Asian Development Bank's beadquarters in Ortigas - another mushrooming business district silhouetted by the rising skyscrapers of the latest real estate boom - gives insights few indoor shopping centres can provide elsewhere. As the largest indoor mall in Asia, covering 331,000 sq m. this vast box often seems to be the middle class's favourite weekend retreat. Some among the 1.5m who

frequent it every weekend do, in fact, spend the better part of their spare time in Mega Mall on its ice skating rink, inside its cavernous cinema halls or browsing around one of the endless department stores. Doubtless the same people will flock to the Mall of Asia, a 500,000 sq m shopping centre which will pip the mall in Edmonton, Canada, to the post as the largest in the world when it is completed in 2000 or thereabouts.

The mall, which is to be built on reclaimed land off Roxas Boulevard, Manila's seafront road which used to boast the most beautiful sunset in Asia, will overlook the Bay of Manila. Once a bay of schooners and host. of

(which journeyed to Acapulco, helping to keep the colony and its "friarocracy" of priests in hock), the water now bobs with merchant tankers and fleets of "power barges" supplying Manila

with electricity. This cathedral to shopping will rise side by side to the kitsch convention and cultural centres built by Imelda Marcos during the 1970s and 1980s on a previous frenzy of land reclamation. Among these monuments to vanity, is one which, according to a few brave journalists, contains the bones of construction workers who fell victim to the first lady's tight deadlines and were left to submerge in tombs of cement. It

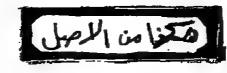
is, they say, haunted. Further down the boulevard towards the Manila Hotel - the post and pre-war headquarters of General MacArthur - stands Intramuros, probably the most evocative monument to the city's Hispanic era. The collection of churches, indoor courtyards and old city battlements seem quaint next to the Inframuros golf course and its well-heeled putters.

The course, one of many to have sprouted in the last five years, sits more comfortably with the town's Karaoke dens and cosmopolitan hotels than the old city walls which overlook it. Indeed, with golf membership prices at the most expensive clubs exceeding US\$1m, Manila is arguably closer to Tokyo than Madrid or Mexico City.

A few hundred metres from Intramuros, the 10-lane EDSA (Epifanio de los Santos) highway, with its the snail's pace queues of colourful jeepneys, Japanese cars and second-hand Korean buses, holds clues to events of more contemporary historical significance.

Ten years ago, in the build-up to the peaceful overthrow of the late president Ferdinand Marcos, the highway was jam-packed with students, AWOL soldiers. maids and brazen nuns sticking flowers into the rows of tanks confronting them. Further up Edsa, at the "Ten years after" pub in a former church where the bar has replaced the altar, more obvious pointers can be found. The bar's riotous nostalgia drums out a vivacity more representative of Manila than its few

remaining Spanish churches. This charm, often wellconcealed and frequently exasperating, can be found in the city's inhabitants that contradictory mass of semi-Americanised, semi-Asian, sometime-catholic but inimitably Filipino people. In retrospect, and with, perhaps, a modicum of surprise. that two-hour wait at the luggage belt might seem well Worth the hassle.



Europe's most respected companies ity and implementation of corporate tegy are high on the list of attributes admired by top managers. And for

Europe's top managers are, it seems, remarkably consistent when it comes to judging corpo-rate excellence. For the third year running they have voted ABB, the Swedish-Swiss engineering group. Europe's most respected company in a survey carried out by the Financial Times and Price Waterhouse.

Though ABB again achieved an impressive score on a wide range of criteria, it is not alone in establishing itself as a firm favourite. Nine of this year's 10 most respected companies also featured in last year's top 10 though there were some changes in the ranking order.

British Airways moved up a place to second position, nosing shead of Nestlé of Switzerland. Siemens of Germany rose two places, while British Petroleum entered the top 10 for the first time. Britain's Marks & Spencer and the Anglo-Dutch Unilever slipped slightly, while Fiat of Italy – joint No.10 last year – tumbled out of the league table.

However, the survey also yielded some surprises, which cast an interesting perspective on its other findings. Asked which company they respected most, regardless of its country of origin, European managers plumped by a substantial margin for General Electric of the US. ABB was relegated to second position, shared with Microsoft of the US.

Furthermore, no fewer than six of the 11 top-ranked companies in this category are US-based, while companies from other non-European countries barely rate a mention. That suggests not only that many of Europe's top executives look across the Atlantic for inspiration but that Japanese corporate prowess no longer enthrals them as it did in the 1980s.

Widening the survey to include views on companies based outside Europe is one of several innovations this year. The questionnaire has been refined and expanded to pinpoint more precisely the most highly-prized corporate attributes - and which companies are perceived to pos-

Respondents were also asked to name the European business leader they most respect, the companies they use as performance benchmarks, and the main challenges confronting business. Finally, the survey was

The quality and implementation of corporate strategy are high on the list of attributes



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sent to chief executives and presidents of more communics - more than 1,400 compared with 1,000

Differences in methodology mean that too much should not be read into variations or contrasts between the findings this year and last. Nor does the survey pretend to be a scientific

exercise. Nonetheless, it points to some clear conclusions about the values and priorities of European

Overall, the most highly-prised corporate attributes emerge as quality and implementation of corporate strategy, management of complexity, and skill at balancing the interests of customers,

employees or shareholders. strategy and maximising Europe's most respected business Branding, basic financial measures of success, impovation and corporate ethics are all considered less important.

These perceptions are borne out by ABB's score. As well as being the overall winner, it is rated exceptionally highly for business performance, corporate

employee potential. It is also cited most frequently as the benchmark against which other companies measure their perfor-

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indeed, admiration for ABB's achievements is overshadowed only by esteem for Mr Percy Barnevik, its president. Named

leader, he attracted more votes than were cast for his company in the overall rankings: he was particularly praised for strategic

vision and focus. The ability to achieve sus-tained success by adopting long-term strategies, while adjusting quickly to changing

market conditions, is especially highly regarded. The findings suggest that companies which score well on these criteria can ride out short-term reverses or blemishes to their reputation.

In this context, two findings are striking. Despite controversy over the disposal of its Brent Spar oil rig, Shell was named as the company which deals best with environmental issues. Meanwhile, adverse publicity over BA's "dirty tricks" campaign against Virgin Airlines did not prevent BA taking joint sixth place among companies respected for demonstrating the highest standards of ethical conduct.

The findings also suggest that the European companies most likely to be held in high esteem are large and involved in manufacturing or beavy industry. Despite the growing economic importance of services businesses, these are poorly represented at the upper levels of the overall rankings. Honourable exceptions include BA, Marks & Spencer, ING, Swissair, Deutsche Bank and Reuters,

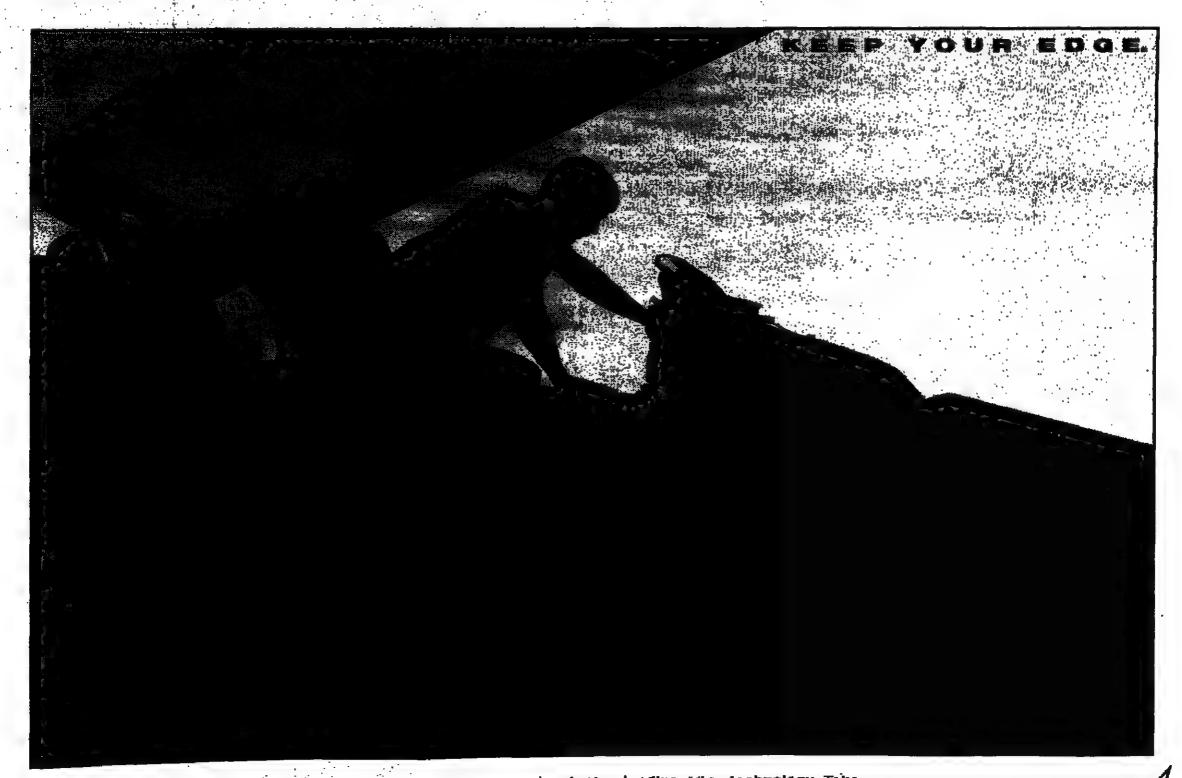
Furthermore, the most highly respected companies tend to be long-established. Virgin, the only genuinely young company in last year's top 30, failed to make the grade this year, though it is ranked first for innovation.

The only other youthful con-cern to attract wide support is SAP, a fast-growing German software company. It is rated highly for innovation and maximising long-term value to shareholders.

But if that suggests that Euro-pean managers can be cautious about the new, they had no hesitations about naming Novartis - a company which does not yet formally exist - as the best-judged recent merger or acquisition. As of early September, consumma-tion of this planned merger of Ciba and Sandoz, two Swiss pharmaceuticals companies, was still awaiting US anti-trust clearance.

Though the survey sample was geographically broadly based, the most highly regarded companies are overwhelmingly from northern Europe. Companies from the south are conspicuously absent from the overall league table, and poorly represented in rankings by specific attributes. Among the few exceptions are

Continued on page 4



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Analysis of attributes: by Geoff Dyer

How companies view each other

The category of most innovative company gave newer groups a chance to shine

In this year's survey of Europe's Most Respected Companies the series of questions on specific attributes was expanded to get a more detailed view of how company executives view their peers.

The answers to these queries - which covered topics such as corporate the use of new technology threw up some of the most interesting findings.

The companies which scored highly in the overall table had a strong showing in these specific categories. Indeed, both ABB and British Airways, the overall

categories. However these companies by no means minated the results.

Perhaps the most surprising response from any of these categories was the nomination of Shell as the European company which is best at dealing with environmental issues.

This, in a year in which

Shell's name was persistently in the news connected with environmental controversy - first with the failed attempt to sink the Brent Spar terminal and then through its oil activities in Nigeria, Shell also came second in the category of companies which show the highest standard of ethical conduct. On this topic it was besten by Marks and Spencer, which has also faced adverse publicity this year over allegations - hotly

numbers one and two came denied by the company -top in four separate that it took advantage of child labour in developing

> And while few will be surprised that Body Shop, the UK green cosmetics group, was mentioned in this category - it came 5th - the appearance of Benetton, which has been widely criticised for some of its

> advertising, was unexpected. Further evidence that companies can put bouts of adverse publicity behind them, at least in the eyes of their peers, came with British Airways' nomination, as the company which provides the highest level of customer satisfaction despite the allegation of a "dirty tricks" campaign against Virgin Airways. in a survey dominated by

companies with long-established names, the

category of most innovative

groups a chance to shine, with Virgin coming top.

The survey produced some results which contradict the widely-held view that Angle-Saxon capitalism breeds short-termism and an obsession with shareholder

When the question was asked which companies were best at balancing the interests of shareholders, employees and customers -sometimes known as the concept of stakeholder companies - the winner was BA, with Marks and Spencer in second place. BP, Reuters and Rentokil were also

The same companies were commended for maximising employee potential and were also commended for providing long-term value, qualities more often

also scored highly for coping with the transition from state sector to private ownership, which is not wholly surprising given that the UK started the process of privatisation earlier than other countries. BA picked up nearly 50 per cent of the votes for the top 10 companies in this section.

Spanish energy conglomerate, also did well. Nokia, the Finnish mobile phone manufacturer, Reuters and Ericsson, were clear leaders in the category of making the most effective use of technology. First Direct, Midland Bank's telephone banking service, came ninth, suggesting a confusion in the replies to this question between high-tech companies and

advantage

taking

KPN, the Dutch telecome

company, and Repsol, the

The companies which were voted to have shown the biggest improvement included ING, the Dutch financial services group, which acquired Barings when it collapsed last year. Luxottica, the Italian maker of spectacles, and Asda, the UK retailer, both of which did not feature highly elsewhere in the survey,

scored well in this category.
The winners of the industry sectors demonstrated the persistence of national reputations. The automobiles and auto parts sector was dominated by German companies, with BMW scoring twice as many votes as its nearest rival, Robert

At the same time UK groups scored highly in the media, printing and advertising sectors and in retail and distribution. Swiss

companies headed the pharmaceuticals sector, with Novartis. coming creditable second behind Boche, given that the proposed merger between Sandoz and Ciba which brought it into being was so

The closest contest was in oil, gas and mining, with Shell just ploping BP, while the transport sector is dominated by airlines, BA beating Swissair and

In the insurance sector, Allianz of Germany was the winner, although ING of the Netherlands received more votes in the overall category, coming 16th equal. Holderbank of Switzer-

land, one of the world's largest cement producers, which comfortably won the construction, housebuilding and building material category, was also notable for not receiving any votes from its own country. Competitors in five other countries nominated the

RWE. Germany's largest electricity group, which came second in the electricity and water sector, also only received votes from peers outside its country. It was beaten by PowerGen the recently privatised UK generator, whose main rival. National Power, did not

make it into the top three. The country winners repeated many of last year's results, with BMW of Germany, Nokia of Finland and El Corte Inglés of Spain

coming top again. However. Fiat's improved fortunes over the last year were reflected in its promotion to the top place in

The increased scope of this year's survey allowed the inclusion of winners for several countries from which there had not been sufficient

information in the past. VA Technology, the Austrian engineering group, Lego, the Danish toy-maker, and Sonae, the Portuguese conglomerate, were all clear winners in their countries.

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World league: by Guy de Jonquières

top of the table

Executives hold up American companies as models of management

It is not that long ago that many European business people - and some of their transatlantic counterparts viewed corporate America with ill-concealed disdain. Prey to financial markets apparently fixated with short-term returns, out-manocuvred by Japanese competitors and often wrestling with obsolete working practices, many big US companies seemed on the road to oblivion.

What a difference a few years can make. From the survey findings in the world table, it appears that European managers not only believe that US companies are on the comeback trail, but hold them up as models of impressive management. None more so than General Electric, which is held

European company. Respondents particularly praised its long-term business performance, exceptional profitability and its success in defying the current bias against corpo-

in higher respect than any

Most respected companies in the world Соптрану No of countries volina General Electric US 14.5 9.9 Microsoft LIS 9.9 British Airways UK 7.6 5 Coop-Ools US. 6.9 Switzerland 3.8 5 Nestiá BMW Germany Procter and Gamble LIS 2.3 General Motors Hewlett-Pacicant 2.3

rate diversification. Microsoft won plaudits for successfully riding the roller coaster of the information economy, while Coca-Cola was applauded for pursuing a long-term global strategy and a firm commitment to shursholder value.

More than 90 per cent of executives responding to the survey nominated one company which they most respected, regardless of its country of origin. However, the geographical pattern of support for individual companies varied considerably. More than half the votes

for GE were from executives in Germany and Italy. ABB won more than half its votes from Finland and Britain and won only one vote from Germany. More than half of Microsoft's votes were from Germany and Britain, while BA attracted more support from Italy than from

the UE. At least as striking as the strong showing of US companies is the virtual absence in the table of contenders from any other non-European country. Asia, the only other region mentioned, by respondents, won a mere 8 per cent of the votes, divided between Sony and Mitsubishi of Japan and Singapore Air-

Yet survey respondents also named intensifying competition, particularly from the Far East, as one of the biggest challenges facing European business in the

Another oddity is that Flat of Haly achieved a relatively high ranking in this part of the survey, while losing its place among the top 30 European companies which command the greatest respect

Cement is a commodity

product and there are only a limited number of ways that

Shareholder value: by Tony Jackson Respected, but short on excellence

In terms of shareholder value, top US companies are ahead of

Europe's leaders The definition of excellence in companies will always be partly subjective. But there is one measure which is, within its narrow limits, purely objective: how far a company has created value for its owners, in the form of ncreased dividends and a

rising share price. This question was touched on in the survey, but in an indirect way. Respondents were asked which European company was best placed to provide maximum long-term value to shareholders. Put that way, the question is one of forward-looking opinion, rather than a hald appeal to

The difference is subtle, the survey, but important. Shareholders naturally prefer to emphasise past share price performance, since it leaves less room for excuses on the nert. of underperforming managers. And in Europe, it is often argued, shareholders tend to occupy a less important place in the scheme of things than in the US.

As a means of looking at this, Price Waterhouse has compiled figures for the total shareholder return (TSR) achieved by the top companies (using data from Datas-tream and Bloomberg). This measures the average percentage rise in value of the stock of each company over five years, assuming that dividends have been reinvested over the period. This is broadly similar to a

popular US measure, market value added (MVA). In the US, MVA is taken increasingly seriously. A recent issue of Chief Executive, for instance, nominated as its chief executive of the year Roberto Goizueta of The Coca-Cola Co. Much was made of the fact that Coca-Cola's market value exceeds the capital invested in it since its inception by \$61bn, the highest figure among the top 1,000 US companies.

Second comes General Electric, with an MVA of \$52bn. This brings us back to our European survey: for GE was the company most admired by respondents to the survey on a worldwide basis. So how do European companies fare against that criterion?

In a word, badly. The most respected company, ABB, achieved an average total shareholder return in the past five years of some 12-13 per cent (adjusting for the fact that it is quoted in both Sweden and Switzerland). In the past three years, the figure is 13 per cent for the Swedish shares and 19 per cent for the Swiss, compared to a total return of 66 per cent for the Swedish market in the period and 54 per cent

In part, of course, the TSR result is dictated by the behaviour of the local stock market. Thus, the worst performer among the 22 leading companies in the survey has been Danons of France, with an average TSR of 1 per cent over five years and minus 3 per cent a year over the past three. And indeed, the French stock market has been very weak over the period: though with the CAC 40 index producing an average total return of 4 per cent in the past three years, Dan-one has underperformed even in local terms.

A still more dismal performer in relative terms has been Deutsche Bank, which has averaged a TSR of only 3 per cent in the past three years compared to a local market performance of 44 per cent. Siemens, too, has managed only 8 per cent. over the period, and 6 per

cent average over 5 years. At the other end of the scale, Nokia of Finland has produced an impressive TSR of 62 per cent on average over the past five years. This is made up of wild swings in the period, ranging from a return of 881 per cent in the year to July 1993 to minus 43 per cent in the year to July 1996. Nevertheless, the performance is impressive overall: and it is telling that it only warrants 19th place in

Indeed, the underperformance in terms of shareholder value is so consistent as to suggest a pattern. Of the top 22 companies, only two -L'Air Liquide and Saint Gobain of France - outperformed their local market. The great majority, including the top seven on the list, underperformed by more

than half. This is underlined by the fact that the companies ranked by respondents as best at creating long-term value - Shell, ABB, Nestlé and Roche - have all performed indifferently in stock market terms over the past five years. This can be explained in either of two ways: that respondents do not regard five years as the long term, or that the value created for shareholders is not uppermost in their

Perhaps both are true. The typical survey respondent was the chief executive of a large European corporation. Most of those executives would probably work on longer planning horizons than five years. Many, one suspects, would regard the shareholder's interest as only one component - sometimes a minor one - in a much larger whole.

This touches on a wider debate. It is a cliche to say that continental European companies place more emphasis on stakeholder relationships - suppliers, bankers, employees - than do their competitors in the US and UK. It is also a cliche to accuse the US-UK approach of resulting in a short-term attitude to business and investment.

But the debate is shifting ground. The recent ousting of Carlo de Benedetti as head of Olivetti, for instance bears some of the hallmarks of a shareholders' revolt. Equally, it is notable that the survey respondents named General Electric of the US as their favourite company worldwide. Jack Welch, GE's chairman, is certainly a long-term strategist, But he is also an

holder value. Indeed, he has said that rewarding his managers in stock - as GE increasingly does - is an important way of channelling their competitive instincts into working for the good of the corporation as a whole. European managers plainly admire Mr Welch's results. It might also pay them to emulate his

explicit champion of share-

Holderbank - By Milliam Hall Single-minded about cement Switzerland's Holderbank.

which has been voted the the construction, homebuilding and building materials sector, is well known in the outside Switzerland. world cement industry as a professional competitor which has never deviated from its simple and successful long-term strategy of being an important particlpant in all the cement mar-

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kets in which it competes. However, visitors to Holderbank's unpretentious headquarters in a small village near Zurich could easily observing that it was the administrative centre for the world's biggest cement complants in sight and there is no corporate logo advertis- annual sales of SFr8.3bn ing Holderbank's sale of (\$6.9bn) and earned SFr463m. more than 50m tonnes a year of cement and its employvast majority of whom work early years. Even then the

The history of Holderbank started in a small village of

the same name, about 30Km west of Zurich, where the Aargauische Portlandcementfabrik Holderbank-Wildegg was founded in 1912. Two years later, Ernst Schmidheiny bought a stake in the company and began the Schmidheiny family's long association with pass by the building without cement. Today, the family of Thomas Schmidheiny, the chairman and managing director, still controls more than 50 per cent of the company which last year had

annual sales of SFr8.3bn Holderbank's emergence as an important multinament of 44,000 people, the tional owes much to those

Schmidheinys realised that the company's long-term growth could not be secured by depending solely on the domestic Swiss market. The family started investing in overseas cement operations first in neighbouring European countries and in the late 1920s had operations in Egypt and Lebanon.

Over the years, there have been setbacks. Some businesses have been nationalised and the company's fortunes were hit by the problems of the Third World debt crisis in the 1980s. More recently the Mexican economic crists led to a 25 per cent fall in Mexican cement production and Apasco, Holderbank's Mexican affiliate, saw its earnings collapse from \$102m in 1994 to just

to an experience of the commence of the commen

\$17m last year. These setbacks might have frightened off other companies worried by the stock market's reaction to their exposure. However, Holderbank has always regarded overseas expansion as one of its main strengths and its strong family shareholding has meant that it could afford to be relaxed about the stock market's short term concerns.

When other companies, such as the UK's Blue Circle, were diversifying out of the cement business, Holderbank's diversification took the form of increasing its geographical spread. Today, Switzerland accounts for less than 10 per cent of the group's profits and it is the biggest cement producer in

the US and number two in large markets such as Mexico, Brazil, Canada and South Africa, It is very strict about what it regards as its core businesses - centent aggregates, concrete and concrete chamicals - and its diversification is based on geography rather than product. When one market is down another will be up.

and has been the driving force behind its recent development, says that the cement industry started as a village industry – a small plant serving a couple of villages - and even today it is very much a regional bosiness where dominant market share is the one of the keys

their products. Quality and services, such as Holderbank's concrete chemicals business, matter. But at the end of the day Holderbank's profitability is very dependent on its pricing power. Consequently, the company's aim is to have market shares of between 30 per cent and 40 per cent in certain well-defined markets. It has sold off plants where its Thomas Schmidheiny, who joined the company in 1967

market position is too weak. Holderbank, in common with other established European producers, has had to contend with increasingly tough competition from eastem Europe. Its reaction has been to attack its cost base, particularly in the area of fuel, and to use its efforts in this area to advance its case as an environmentally sensitive company.

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Percy Barnevik, chairman and chief executive of ABS . By Steam Wassiyi.

Engineering a worldwide advance

For Percy Barnevik, the chairman and chief executive of third time overall winner ABB, the Swedish-Swiss engineering group, the biggest challenge is expanding his complex organisation into emerging markets.

What began seven years ago as a push into eastern Europe following the col-lapse of communism, has mushroomed into a worldwide advance, focused on the former Soviet Union and Asia as well as on eastern Europe. The lessons learned in the early 1990s from investing in factories in Poland and the Czech Republic are now being applied further east, including in Russia, India, China and south-east Asia.

Mr Barnevik says ABB's aim is the "massive transfer of knowledge from west to east through our product lines ... The group is gravitating eastwards to eastern Europe and east Asia."

When the expansion into eastern Europe started the company transferred skills to factories in Poland and the Czech Republic from Switzerland, Sweden and Germany, Now it is using Polish and Czech engineers to train staff at newly-acquired businesses in the Ukraine and Russia. Nor does it neglect smaller countries - for example, companies in Norway, Sweden, Denmark and Finland have been entrusted with supporting emerging businesses in Lithuania, Latvia and Estonia, in a Baltic co-opera-

The pattern is repeated in



Asia. ABB's factory automation plant in Bangalore, India, is being used to train engineers for Thailand and elsewhere in south-east Asia. Responsibility for developing a low voltage apparatus factory in Beijing - a key prod-uct in a key country - has been entrusted to managers in Singapore. Staff sent to China are mainly young overseas Chinese, mostly recruited in Singapore and Hong Kong

Meanwhile, in South America, the large Brazilian operations are used as a base

for supplying trained staff to be able to achieve this trailising, using methods smaller countries and in Africa, South Africa is a base for developing ties with other states.

Mr Barnevik says that without decentralising responsibilities, such transfor of skills would be costly. "It would be truly expensive if everything had to come through head office. Sending Americans, Swedes, or Germans everywhere would be expensive and less effective since they do not know the culture or the language.

However, ABB would not

ence in running a decentraltsed operation and a suitable management system.

Mr Barnevik has run the group since its foundation in 1988 by trying to push responsibilities out of head office to individual country and business division managers. When he created the company by merging Asea of Sweden and Switzerland's Brown Boveri he put a strong emphasis on cutting

degree of decentralisation if already used at Asea, which it did not have long experi- he had run since 1980. But to keep the group from fragmenting Mr Barnevik built a matrix organisation in which managers report to a country manager and to a business area manager.

In the rush to decentralise. the group was broken into more than 60 businesses, but it has since been reorganised into 36 because some of the units were too small and overlapped too much. Geographical expansion

increase in country managers from 57 in 1990 to 94 today. There are also nine regional managers covering groups of countries where there is too little business as yet for country managers.

Mr Barnevik says that without the matrix it would have been difficult to expand so quickly. But he argues that the matrix alone does not explain the group's success in spreading to new countries. The solution is mobilising enough skilled people able to bring on staff in newly-emerging economies. Mr Barnevik says: "One of my big jobs is to strengthen the glue - to make managers feel they are part of a family." He cultivates "group-mindedness" and encourages it with praise and bonuses for those who support operations in emerging countries.

Mr Barnevik denies that

he shoulders too much of this burden himself. "People say that. But with every year that passes there are more and more people who are group-minded."

That conviction stems from the fact that many of the group's most dynamic customers are located out-side its traditional bome in western Europe. These customers are now driving the group's growth. In the six months to the end of June, ABB reported a 22 per cent increase in net income to \$556m, despite a slowdown in western Europe. Mr Barnevik says that without the business in eastern Europe and Asia, the increase

Country rankings

Rank Company VA Technology OMV Oil, gas & mining Chemicais, rubber & plastics Retail & distribution Retail & distribution Chemicals, rubbar & plant Entertainment & tes Pharmacauticals & healthc Paper, packaging/forestry Automobiles/trucks & parts Food processors Diversified holding co. Cabia Garal Banks & financial institu de Depósito Oti, ges & mining Benks & financial Institution Português El Corte Inglés Recall & compribution Oil, gas & mining

The Bertelsmann group . By Judy Dempsey

Diversified holding co.

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PROFILE // ING the pariting and institution proup : (B) Cordor Comb/

Dutch group casts a wide net

ING Groep, which emerges are dwarfed by the FIL98bn as the highest-placed finan-harvested at home but come cial institution, is known in the City of London as the rescuer of Berings, and in dozens of developing countries as a western finance house eager to be among the first on the scene as econo-

mies open up.
Its appetite for emerging, markets reflects its small home base. Among a popula tion of fewer than 16m in the Netherlands, ING has a quarter of the market for life policies and a financial relationship of some sort with 75 per cent of all households.

The group is the product of a merger in 1991 between Nederlandse Middenstandsbank and the Nationale-Nederlanden insurer. Since then it has also scooped up Postbank, the giro operation shed during the privatisation of KPN, the country's posts and telecommunications car-

China is currently its most important target market. Bank offices were added last year in Shanghai and Shenyang, and the insurance side is seeking permission to convert its representative offices there into full sales

In its interim results announced last month income from Asia, although still only 4.4 per cent of the total, breached the Flibn barrier. That excludes a similar sized contribution from Australia, where the group owns Mercantile Mutual, an insurer on to which it is First half profits from Asia, at F1120m before tax,

eterted to build up a number of greenfield operations; and Japan was our first," says Mr And Jacobs, ING chair-

licence, but since then we and in eastern Europe."

widely reflects not only the

icies could be sold.

close to the FI 139m the group managed from the rest of Europe. Its surefootedness in the Pacific region is backed by the experience of a decade-old life assurance presence in dayen, where premium income last year topped Fil. ibn.
"On the insurance side, we

"For five or six years it

was very difficult to get a have been very successful there...we have used the lessons we learnt there in Kores, Taiwan and a number of other countries like Italy. This need to cast its net

relatively small Dutch market but also the absence of the "second home market" after which the group has hankered. An attempted merger in 1992 with Banque Bruxelles Lambert of Belgium came to naught, and a large retail banking presence in western Europe looks unlikely unless an unexpected candidate presents

This is in spite of its having a strong insurance presence in a number of countries, the importance of which would be enhanced by the addition, on German Alifinanz principles, of bank branches through which pol-



And Jacobs. ING chairmen: Chine is a key target for the group

gium but the prices (of ance people, we can cerit is difficult to make a profit," says Mr Jacobs.

This summer ING took Bank Slaski, one of Poland's largest commercial banks. Slaski has im clients and has provided - at the relatively cheap price of Fl355m for which ING doubled its stake to 54.1 per cent - a base from which life and other straightforward insurance policies, such as motor

cover, can be marketed. "If I look at the kind of offices, what kind of business Postbank is doing with the insurance company for the group, if I see how we

Germany or France or Bel- between bankers and insuracquisition] are so high that tainly say this was a success it is difficult to make a story," Mr Jacobs maintains. ING's domestic banking

operations, including Postmajority control instead at bank, now bring to the group about 10 per cent of all new life policies written by the insurance division. Such indicators of the advantage a group gains by operating in both sectors are still "not at a level we want to achieve in the long run, but they are a very impor-

tant factor in our total". The group had total assets the end of June of business we get from bank F1439.3bn, swollen by the dates, but on the other hand acquisition of Barings, the London merchant bank brought to its knees early a thousand - it would be last year by the unauthorwork together as bankers or ised trading of Mr Nick Leeinvestors in a number of big son. Barings failed to meet bank in the US would be a

up for the interest ING would have earned had it left its 2860m investment on deposit earning interest. But When

merely that it should make

market tradu management which provided a good match for ING's existing activities in those same economies. But in the six months to June the group as a whole samed more from Asia, Australia and Latin America than from North America, and acquiring a US investment bank has often been seen as a necessary

As legal barriers separating banks and insurers break down in the US, such a mission in theory becomes easier, but such a plunge may not happen in the immediate period shead. Mr Jacobs cautions. Barings is not yet doing as well as he thinks it could, and while financial resources could absorb a similar entity across the Atlantic, there would be a risk of over-extending management capability.

He goes on: "We are not actively looking at candiif somebody were there - an opportunity which is one in stupid not to look at it ... having an investment

Conflict of cultures for media giant

the group is happy with its Germany's largest media purchase and confident of and entertainment group adequate returns this and the world's third bigyear.
The Singapore experience aside, Barings had developed deal with Mr Rupert Mura confidence in emerging doch's British Sky Broadtelevision channel, there were mixed reactions from the media world.

To some analysis, the alliance came as no surprise. Bertelsmann, joint third in the German country list of admired companies whose main strength lies in book and magazine publishing, had always wanted to join the world's biggest television groups, with perhaps an eye on eventually acquiring a

stake in a Hollywood studio. More circumspect analysts, however, concluded that the alliance short-lived as it turned out could not have lasted since Bertelsmann lacked experience in the television business. Significantly, it had not prepared the ground sufficiently to become one of the principal groups - shead of the Munich-based Kirch group, its arch rival - in launching digital television

in Germany.

Bertelsmann's attempts to enter Germany's nascent digital television market also exposed the contradictions within a group which has prided itself on continuing its philanthropic tradition, generously donating to fourdations, and maintaining a



welcomes plobal allences

list of high quality magazines and publishing houses. Resentially, Bertelsmann has manoeuvred itself into a position of having to decide whether it wants to divert considerable financial resources into expanding into multimedia and digital television, or to continue building up its impressive book and recording publishing divisions. Its conservative and cautious approach runs counter to the cutthroat world of multimedia and television. Reconciling the two cultures has not brought out the best in Bertelsmann.

Mr Mark Wössner, Bertelsmann's chairman, highlighted the dilemma that traditional media and entertainment groups face in a recent speech - confidently adding that the group could integrate both tendencies. A media world without traditional borders is emerging from the growing integration of previously discrete activities and technologies," he said.

"There is compelling reason for companies in differing industries to form global alliances as a means of mastering the market complexities inherent in the new Ricordi, Italy's big music media markets and the convergence of content, hardware and advanced forms of communications." The recent experiences of

the past year suggest, however, that the group is not prepared to meet this challenge. First, it failed to prepare the ground in consolidating the alliance with Mr Murdoch's BSkyB. "Bertelsmann was obsessed with from Canal Plus, the French commercial pay television Bertelsmann and the Kirch

group holds a stake in Premiere. Germany's paytelevision network.

Secondly, eyen though Bertelsmann has a reputation of being an open com-pany, it failed to keep CLT, the Luxembourg-based comercial television group which merged recently with UFA, the television arm of Bertelsmann, and Canal Plus, informed of what kind of partnership and strategy was keen to pursue in its bid to launch digital televigion in Germany and become an important force in Europe.

In the event, Bertelsmann has been reluctantly forced to join forces with the Kirch group - now an ally of Mr Murdoch's BSkyB - in forming a joint decoding system for digital television. To add insult to injury. Canal Plus. frustrated with Bertelsmann's tactics, sarlier this month announced it would merge with NetHold, owned jointly by Richemont, the luxury goods and tobacco business, and MIH, the South African-owned pay television company. This will create the largest television group in the world and complete the carve up of the digital television map of Europe.

The embarrassment in losing allies as well as the financial cost of trying to launch digital television estimated to exceed DM1bn reveal much about a company which is trying to come nary pace of multimedia technology.

For decades, it has been

able to build up its book publishing lists and its book clubs, the biggest in the world with 35m subscribers. has expanded into the US market, buying the prestigeladen Doubleday Dell publishing group and the New York Times magazines, the RCA recording label and company.

But Bertelsmann is the first to admit that these acquisitions have taken time to integrate, prompting analysts to suggest it may have diversified too quickly into the multimedia and digital had consolidated its other acquisitions.

Its interim results for the 1995/96 fiscal year confirm beating the Kirch group to this. Operating results fell 16 the digital television post. It per cent. Its sales, which simply did not have the totalled DM20.5bn during the expertise on the ground to 1994/95 fiscal year are expeccut through its own bureau- ted to reach DM21.5bn this cracy, speed up the decoding year. But much attention technology and consult its will be focused on Bertels-other allies," said an official mann's net income which in the last fiscal year amounted to DM815m and above all its channel which along with ability to map out a coherent

Results analysis and methodology . By Geoff Dyer.

A consistent pattern has emerged

New questions were introduced this year to probe the views of senior executives

This is the third year that the Financial Times and Price Waterhouse have conducted a survey to find out which are Europe's Most Respected Companies and this time a number of innovations were incorporated to enhance the range and quality of the findings.
The basic approach of the

survey remains the same, however, and the results can legitimately be compared with last year's conclusions. We sent questionnaires to companies in a total of 18

countries, the same as last year, but this time we increased the number of organisations approached from 1.097 to 1.451. In particular, we were keen to expand the level of replies from smaller countries.

The FT 500, published every January, which lists reflect the views of a broad Europe's largest quoted companies by market capitalisation.

After excluding companies that were not Europeanowned from this list, we expanded the sample, using ments made by participants a number of other databases, and included large private or state-owned companies. To ensure that the sample

bore some resemblance to the European economy, the number of companies selected from each country was based on that country's proportion of European GDP. A rough minimum of 50 companies per country was used, wherever possible.

The aim of the final sample, therefore, was to make sure that each country was fairly represented and that the companies included were

sufficiently large. We asked for response to and country winners, which were the best compaings covering a broader from only one executive at

selecting the companies was chief executive or president - so that the replies would range of companies. The questionnaires - which were available in English, French, German, Spanish and Portuguese - were filled in anonymonsly, so that any comcannot be traced back to the individuals.

The first part of the survey is similar to previous years participants were asked to name the companies they most respected in Europe, in their own country and in their own sector.

Although the sample of respondents was much larger this time, the results from these questions show a good deal of continuity with our previous surveys - from the presence in the top three, of ABB, British Airways and Nestle, all of which have done well previ-

expansion of the sample this mental issues, at demon-year, we have been able to strating high standards of include results for countries ethical conduct in business, such as Austria, Belgium, and which group had made Denmark and Portugal, about which it had not been possible to draw firm conclusions in the past because of from public to private ownthe lack of sufficient infor- ership. It was in the second part some of the most surprising

of the survey that most of results in the survey, such the changes were intro- as Shell's nomination as the duced. Questions asking company best at dealing respondents to nominate which company best displayed a series of specific tives to consider all Euromanagement characteristics were increased from nine to 21. For instance, executives instead of asking them just were asked to nominate the to concentrate their answers companies which had the on companies within their strongest corporate brand sectors, as we have done in image, were best at maximising employee potential, made the most effective use of new technology or were best at satisfying their cus-

Other questions asked

The starting point for each company - usually the However, as a result of the nies at dealing with environ- range of companies. the best-judged recent merger or acquisition, or had best managed the transition This section produced

> with environmental issues. This time we asked execupean companies in their responses to these questions, the past.

> We hope that by encouraging executives to give views on companies outside the narrow confines of their own industry we have produced a more interesting set of find-

An additional section of the questionnaire this year asked participants to comment on issues and personal-

A further question asked what they thought was the most important issue facing European business and which company was best placed to respond to that challenge, and this produced some interesting regional variations. The results were calcu-

lated on the simple basis of votes received for each question. However we noted the country of origin of each vote to get an idea of how broadly spread the support for each company was: so while ABB, the overall winner, received votes from companies in a total of twelve countries, Air Liquide, the French chemicals and plastics group which came 14th, garnered votes from peers in only one coun-

Ferrero, the confectioners, . By Andrew Hill

Italian group's sweet smell of success

which makes the world's largest confectioners lick their lips. It is not so much the Italian company's products which invite admiration although its Nutella spread, Kinder and Ferrero Rocher chocolates, and Tic Tac mints are among the world's best-selling sweet things – but the Italian group's ability to go on growing, at a time when

most of its competitors have had their share of hard times. It is a quality which has made it Italy's second most admired company in this year's list, behind Flat. Last year, the Ferrero holding company - regis-tered in the Netherlands -increased worldwide consolidated turnover by 7.8 per cent to F17.23bn (\$4.35bn) in a difficult market. Not surprisingly, as one food ana-

lyst puts it: "People like Cad-

bury would really like to get

their sticky hands on Fer-

The frustration for fellow are marketed with style and aggression. Ferrero the comopen to offers. The group,

Ferrero is the company which celebrates its 50th anniversary this year, is as discreet as only a familyowned Italian company can be. It is entirely self-financing, has never made an acquisition, and does not publish holding company profits.

The Ferreros themselves rarely talk publicly about the company, which now claims to be one of the world's top five confectionery groups, up there with Mars, Suchard, Nestlé and Cadbury. Perhaps unsurprisingly, one of Ferrero's clos-est allies is that other soul of Italian discretion, Mediobanca, the powerful and secretive Milan-based merchant bank, of which the chocolate company is a core shareholder.

The group is headed by Michele Ferrero, son of Pietro, one of two brothers who launched the group in 1946 in Alba, in Piedmont, where the family owned a cake

The technical key to postconfectioners is that war success was the inven-whereas Ferrero's products tion of Pasta Gianduja - a mixture of cocoa, sugar, milk, nuts and coconut butpany is emphatically not ter which cost a quarter of pure chocolate, and became number of employees from



mass-market alternative almost immediately. Within a year, Ferrero had trans-

five or six to more than 50. Soon it had expanded from the surrogate-chocolate marferred production to a larger ket into manufacturing the factory and increased the real thing, at prices which

Perrero claims the keys to

success have always included strong attention to distribution and marketing the company started almost immediately to cut out inter-mediaries and sell products direct to shopkespers using its own fleet of vehicles development of innovative new product lines, and the strong loyalty of the staff. Workers have twice rescued the group's Alba plant

from floods which submerged the production facilities. In February 1948, the factory was up and running again within 10 days. In autumn 1994, when the com-pany was working towards the busy Christmas period, employees helped restore partial production in the much larger Alba factory within two weeks. Net profit at the Italian operating company halved to L65.6bn (\$43.5m), but recovered last

year to L100.5bm. Michele Ferrero - who, with his mother, took over the full running of the group in the 1950s after the deaths of his father and uncle began expansion into the rest of Europe as early as 1957, with the construction

of a factory in Germany. In the 1970s, Ferrero pushed into the Americas, southeast Asia and Australia, and, in the 1990s, started to build

Poland and in Argentina.

So where does Ferrero go from here? It would be out of character for the company to the rest of the world.

its presence in eastern Europe.

Ferrero now claims to produce the best-selling praline and liqueur chocolate in Europe (respectively Farrero Rocher, launched only in 1981, and Mon Cherl), and the world's best-selling mint, Tic Tac. As a group, Ferrero employs 14,000 people world-wide, and has 14 production plants, with new factories under construction in

join the acquisition trail, so the most likely route is nsion into new markets. Of the group's F1 7.23bn turnover, F1 1.8bn is made in Italy, Fl 4.57bn in the rest of Europe and only Fi 817bn in

As for the possibility of the family selling out to one of those hungry rivals, that looks even less likely now that Michele Ferrero is handing more power over to his sons, both only in their early

■ Competitive advantage - By John Wright

A sophisticated offering

British Alrways • By Michael Skapinker

British Airways' position in second place behind ABB in the list of Europe's most respected companies reflects its transformation over the post decade from much-derided state carrier into one of the world's most highlyregarded airlines.

Its pre-tax profits last year of £585m were the highest of any airline. Its new first class sants, which recline to become beds, and innovations such as its business class larder make its offering one of the most sophisticated in the business.

Yet British Airways confronts an aviation world of airlines to 25 of the voting which is changing rapidly and in which it is scrambling to ensure it remains an

in North America and Europe, airlines are forming laid down the number of global alliances, creating international networks which allow them to sell tickets for a far wider range of routes than was previ-

ously possible. The new alliances have been prompted by the deregulation of the aviation market in the US, and now in Europe, and the entry of low-cost, no-frills carriers. Fares are expected to fall in the long-term.

Given the high cost of purchasing and maintaining aircraft to acceptable safety standards, airlines' profit margins are being squeezed. Only by attracting a higher volume of passengers cart **Bufficient resources to invest** in equipment, training and

In any other industry, this can be flown across the would lead to consolidation Atlantic in US carriers. in the form of mergers and takeovers. The airline business, however, is different. agreements from BA's point Although it is a global, fastmoving business, aviation is hemmed in by the sort of government regulations

which affect no other indus-Under European Union miles airlines can only be controlled by EU nationals, although foreigners can own up to 49 per cent of their shares. The rules in the US are even more restrictive. limiting foreign ownership

Until recently no international flight could take place unless the governments at both ends had agreed to it. Bilateral aviation treaties flights that could be made between cities in different countries and, occasionally. even the size of the aircraft

that could be used. In recent years, the US has begun to sweep away many of these restrictions, reaching "open skies" agreements with several European countries, including, earlier this year, Germany. These agreements allow airlines from one country to fly to any point in the other, without the need for government

Not all restrictions have been lifted by these agreements: only US carriers can make domestic flights in the US. This gives them a substantial advantage in flying passengers to airports in as Europe's leading airline.

The most important outcome of these open skies

alliances by the airline's competitors. The oldest of these is that between KLM of the Netherlands and Northwest Airlines of the US. Another US carrier, Delta Air Lines, has an alliance with Swissair, Austrian Airlines and Sabena of Belgium. Lufthansa of Germany, British Airways' principal competitor in Europe, has teamed up with United

of view is the formation of

Airlines of the US. All these alliances have received anti-trust immunity from the US authorities. This means, in the words of US airline executive, "they can do things which would otherwise land them in jail".

They can, for example, coordinate their schedules closely, market their services jointly and share many of their facilities - acting as if they were a single airline. They can also "code-share", that is put their two letter flight codes on each other's flights and sell tickets on them as if they were their own. This means that Lufthansa, for example, could sell a ticket from Frankfurt to a small US city that it does not serve. On the US leg of the journey, the passenger will travel on a

United flight. British Airways believes that alliances of this sort pose a threat to its position large cities, from where they Mr Robert Ayling, its chief

ingly, competition will be between aviation networks rather than between airlines. Earlier this year, British Airways announced plans for an alliance with American Airlines. The two plan to co-ordinate their flights and

share revenues from their transsilantic flights. The US government has said that the alliance can only be put into effect, and be granted anti-trust immunity, when the US and the UK have concluded an open skies agreement. This has so far proved difficult, with the US demanding greater access for its carriers to Lon-

don's Heathrow airport. The alliance has been strongly opposed by Virgin Atlantic of the UK and most large US carriers on the grounds that it will have too big a share of the transatiantic air market. However, the two carriers say they have substantial support from US

air traveliers. A survey carried put for American among international business travellers found 83 per cent thought the BA-American alliance was a good idea and 69 per cent said it would help to make international travel

☐ Among other results in

the survey, Mr Richard Branson's Virgin group scores well for ensuring one tomer satisfaction and maximising employee potential. It does best, however, in the rankings for innovation, winning first place ahead of

ABB, Benetion and British

Survival through differentiation

The pace of change is unrelenting. The world continues to get smaller through transportation and, more importantly, telecommunications. The OECD countries have a high standard of living but high wage rates. Meanwhile, protective tariff barriers continue to fall away, increasing competition from low wage econo-

The survey showed that 44 per cent of respondents saw competition, particularly from south-east Asia, as the leading issue. Competitive edge, whilst partly a matter of price, is also about giving the consumer what he wants. Consumer sovereignty is in the ascendancy

How then should compa nies position themselves to maintain a competitive edge? Good ideas, whether cost-reduction, production or marketing innovation, provide a market lead for a time, but constant change is

As far as cost-reduction is concerned, business process re-engineering, adopting best practice, and outsourcing are increasingly commonplace. But in many countries there is an important contribution to the industry cost base which only governments can make available.

Energy, transport and tele-

communications are large business costs. Yet, in some countries these are in the hands of monopolists. Goveroments may sometimes be tempted to put the interests of those monopoly compaties sheed of the economic well being of their countries as a whole, and particularly of the companies which are

the wealth creators. Full competition in these industries is not only desirable but essential. In the UK, for example, de-regulation of the telecommunications sector is bringing more choice and reduced bills to both business and residential customers. And while British Telecom has shed significant numbers of staff, liberalisation has introduced more than 150 new operators in

Taking out costs, whether company or Government-led, is only part of the equation. What will determine competitive edge - and drive the In short, differentiation

thousands of new jobs.

through innovation - innovation to do things differently, to take a step ahead of competitors, to recognise

market niches, innovative products, novel structures for the industry, and better marketing routes to custom-

The size of these steps may be increasing so that some businesses find themselves stranded. Businesses may take very different structures and shapes. Business leaders could, however, ask themselves two things: □ What is my business's core skill which needs to be

preserved? What are my core products and how do I keep ☐ How do I best manage

those areas which are essential to my business but where I may not have a competitive edge? The changing shape of

utilities is an interesting example of this. There is growing evidence on both sides of the Atlantic that the monopoly business of running pipes and wires could become fully divorced from the business of retailing the commodity, particularly gas and electricity.

In particular, as a retailing activity, it could fall into the hands of retail specialists who have a large customer base. In the UK, two supermarket chains have already made public their intention to enter into the mipply of electricity. That packaging of the commodities with supermarket retailing might expand to cover financial services, multimedia and communications.

Alternatively, it could be telecom operators, banks or credit card companies which have the solutions. While the shape of some companies may change in unexpected ways, others have a core business and skills which are likely to evolve and expand horizontally.

For example, the survey leader, ABB, has a business based on the wholesale or trada provision of engineering products where competitive edge is achieved through recognised engi-neering abilities (and with it, brand name).

A fundamental feature of maintaining competitive edge, in addition to the adoption of best practices, is the reliance on innovation. whether through R&D in product development or through full recognition of what the core business and skills are, and hence the evolutionary threats and opportunities.

John Wright, is a partner with Price Waterhouse, Lon-

Most admired attributes

Engineering Transport Food prode NMP Media, printing & advertising Oil, gas & mining

Engineering Transport Food arcore NWB Medie, printing & ad-Oil, gas & mining Floyal Dutch Shall Transpor

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Continued from page 1

Benetton of Italy, respected for innovation, Spain's Rep-sol, whose privatisation is judged a success, and KI Corte Inglês, a Spanish retailer admired for balancing the interests of shareholders, employees and cus-

Some of the detailed findings confirm national business stereotypes. Germany is strongly represented in engi-neering and chemicals, while the most highly ranked European companies in aviation, retailing and information services are all British. rantiv as a German phanous-A number of UK compa-

nies, including BA, HP, and Marks and Spencer, perform well on criteria normally associated with the kind of long-termism for which German companies have traditionally been renowned. That suggests that nega-

tive parceptions Anglo-Saxon capitalism as irredeemably "short-termist" are waning - a point reinforced by the high regard in which many Ettro-DOED MANAGERS NOW APPOSIT to hold US companies.

Furthermore, the success ful "stakeholder" company is no longer viewed predomi-

erron, Indeed, the list of com-

best the interests of shareholders, employees and customers is headed by BA and Marke and Spencer. Though companies such as

panies judged to balance

Nestlé, BMW and Siemens also acore highly on this measure, Air Liquide and L'Oréal of France, Astra of Sweden, Body Shop, BP, Rentokii, Reuters and Tesco all obtain honourable mentions.

By definition, most of the survey's findings are based on perceptions of past performance. But what of the future? Asked what they considered the biggest challenges facing European busi-

dents named competition. particularly from the Far East, and pressure on costs. Roughly a fifth singled out regional issues, such as European monetary union and the growth of protectionism in Europe, while almost as many picked on the globalisation of markets. No one company is perceived as best-placed to

ss, almost half the respon-

tackle all these challenges. dle the implications of glob-

PROFILE El Corte Inglés, Spenish retail group a Sy Tom Burs

Popular landmarks

landmarks: the cathedral, the city hall, the bullring and the Corte Ingles store. Spaniards spend a lot more of their time in the fourth landmark than in the other three put together - perhaps explaining why it is Spain's most admired company.

financial year of Ptal,015bn \$2bb) and net profits of Pta33.5bn, El Corte Inglés is by far the largest privatelyowned business in Spain, and with the biggest marketing budget in the country, dominates domestic advertising and ensures total aware-

ness of its presence. For many Spaniards, the chain's large department stores constitute one of the main reference points in their lives. The Corte Ingles is the first choice for aboutto-be-weds when they draw up their wedding gift list. Likely as not the chain's travel department will organise their honeymoon and its interior decorating unit will advise on the fit-

tings of their new home. An important part of the Corte Inglés business formula is to provide virtually every consumer product. The same large store contains high fashlon and basic household goods, high-tech equipment and groceries. It No Spaniard is ever vary is a large emporium strategy far from the Corte Inglés.

mula of selling everything to everybody, with a fast delivery service and a moneyback guarantee, is peculiar to Spain and it has built tremendous customer loyalty.

There is probably better value elsewhere and better quality as well, but the Cortes Inglés combination of quality and value is firmly imprinted on the minds of domestic consumers. The strength of this perception, together with the extraordinary range of customer services and the availability of goods, is one explanation for the store chain's success.

nary promotional energy. Every year is punctuated by a succession of special the matic weeks in which the Corte Inglés stores promote the products of a given country or sector, or, as in the case of its Spring and Autumn fashion promotions, the change of a season.

Big towns in Spain have four that sells right across the Last year the company landmarks; the cathedral, social scale. The tested for bought a rival domestic.

its own reserves.

Another is its extraordi-

Sales at the Cortes ingles are media events and so are its Christmas decorations. Children are drawn to Cortes inglés stores at Christmas like moths to a light builb because several stores around the country set up mini amusement parks in adjacent plazas.

No Spaniard is ever very

chain, Galerias Preciados, adding a further 28 large stores to the 32 it already operated and establishing itself in 13 cities where it was not previously present. The acquisition was in

itself testimony to the Corte Inglés' financial muscle - a strength that is all the more remarkable because the 60year old business has always financed development out of The Corte Inglés paid Pta30hn for Galerias Precia-

dos in June last year and spent a further Pta50bn revamping its rival's stores in order to relaunch them under its own logo in time. spree six months later. Ownership of Galerias had changed hands six times since the late 1970s and, with its management adrift, it had run up accumulated losses of Pta39hn since 1989.

With Galerias under its belt the Corte Ingles has gained more than an increased market share. The takeover has now allowed it to experiment with specialised stores in big cities such as Madrid, Barcelona and Valencia where both chains formerly competed, often with big stores on the same street.

Although the Corte Inglés

will mairiain its visut emporium formula in most of its large stores it intends to move into market segmentation, as developed by US retailers such as Toys R Us and known in the retail industry as "category kill-The Corte Inglés is no

stranger to specialisation and it is a nimble follower of

retail trends. The company

has built up a unit called Hipercor with 12 large out-oftown sites spread around the country to compete with the main hypermarket groups.
The final factor behind the success of the Corte Inglés is tight management and a pro-nounced corporate culture. The company is owned by a foundation that was set by its creator Mr Ramos Areces, who returned in the 1930s with enough savings from a spell in Cuba as a

esy shop in Madrid. Since the death of the publicity-shy Mr Areces in 1989, the company is run by his no less-reclusive naphew, Mr. Indoro Alvarez. The Corts Incies prides itself on the continual train-

youth to open a small drap-

ing programmes, frings benefits and incentive schemes that it provides for its more than 50,000 staff, Most of the company's executives have worked their way up from

حكنامن المرصل

However, BA, Shell and Nestie are all rated highly for their ability to deal with cost pressures, while ARR is considered the best bet to hanWednesday September 18 1996



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Trend to be but

Mexico set to redeem Bradys

The proceeds from Mexico's latest issue of giobal bonds - which go on sale today and tomorrow - will be used to redeem existing Brady bonds, finance ministry officials said.

The \$1hn issue of 20-year paper will allow the country to buy back Bradys worth \$1.24bn because the bonds trade at a discount to their nominal value. Bradys were issued to replace distressed debt in 1990 and are guaranteed by holdings of US Treasury bonds.

investors' appetite for debt from the emerging markets is high, allowing these issuers to borrow at much lower interest rates. Mexico will pay yearly interest on the new bonds at about 4.5 percentage points above the rate paid on US Treasury bonds. This will allow the government to save \$115m in interest payments. When Mexico issued 30-year global bonds in May, it had to pay 5.5 percentage points more than the interest on US Treasuries.

Finance officials also said \$410m of collateral, previously held as a guarantee on the Brady bonds, will be used to retire short-term debt.

Weak trading hits Nikko forecast Nikko Securities, one of Japan's Big Four brokers, slashed its interim and annual earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange bit commission revenue The broker said it now expected Y20bn (\$181m) in unconsolidated recurring profits - before extraordinary items and tax - for the first half to September, down 22 per cent from the previous year. Page 20

Generator aims to lift its market rating National Power, Britain's biggest electricity generator, will today begin a campaign to improve its stock market rating at a day-long presentation to 70 institutional investors and analysts.

Pathé warns of second-helf decline The chairman of Pathé, the French media group formed out of the demerger of the Chargeurs conglomerate earlier this year, warned that second-balf profits would be well below those for the first six months: Page 19

Contracting lifts Taylor Woodrow 81% Improved performance from UK contracting helped Taylor Woodrow, the construction and property group, increase pre-tax profits from £14m to £35.4m (\$39.6m) in the six months to June. The result included a £2m charge to cover the cost of closing Myton, the group's refurbishment business, after an £8.8m restructuring charge last time. Page 23

Tesco stays whead an profits rise
Tesco consolidated its position as the UK's most popular supermarket chain in the first half of the year, as pre-tax profits rose 12 per cent and like-for-like sales accelerated in the second half.

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Telekom predicts DM6bn profit

Mr Ron Sommer, chief evective, said the company's net debts would be cut to about

telecoms market is fully liber-

terday for the first time ever. by 2000. and just weeks before the privatisation, reflected provisions more than DM6bn (\$4bn). It needed to clean up the group's said it was gradually reducing balance sheet ahead of the

Foreign groups line up

for Brazil telecoms sale

the six consortia to submit pre-

qualification documents by

Stet leads a grouping con-

Argentina; Brazilian construc-

tion group Camargo Corrêa;

and Bradesco, Brazil's biggest

France Télécom and Brasilian

partners Banco Opportunity,

Banco do Brasil Investimentos

and four local pension funds;

Korea Telecom of South Korea

with local construction group

Odebrecht, Brazilian bank Uni-

banco and media group Folha

de São Paulo: Telefónica Inter-

nacional of Spain, CTC of

The other bidders are:

sisting of Peres Compane of countries in the region, its

last weekend's deadline.

private sector bank.

"This is the first opportunity Chile, Telefónica de Argentina, Telefónica chases for a partnership between for-Citicorp of the US and local GSM deal, Page 19

sche Telekom employs 207,000 people, but it has said it will reduce its workforce to 170,000

pared with DM32.5bn last year. They rose, however, 1.6 per cent when adjusted for extraordinary items and are forecast to reach DMS2bn for the full year, because, the comtionally DMIbn higher in the

gic opportunity," said Mr

Bruce Haddad, GTE's Latin

America vice-president. "CRT offers a key pathway to other

area is contiguous with Uru-

guay and Argentina, where

GTE has a strong presence,

and it provides accelerated

Telephone penetration in Rio

Grande do Sul has risen from

7.5 to 10.5 lines per 100 inhabit-

ants in the past year but

remains below the Brazilian

Rio Grande do Sul communica-

tions secretary, hopes bids will

Telefónica chases Romanian

Mr Assis Roberto de Sonza.

average of 13.5:

entry to the Brazilian market."

interest payments as competi-tion picks up after the German redundancies. At present Deut-the Hungarian telecous operator Matav, now stand at DM107bn.

However, Mr Joachim Kröske, fmance director, dismissed charges that the debt would weigh down Deutsche Telekom's results in coming

years. Mr Kroske said the company generated cash flow DM12.5bn in the first six months, similar to last year, and would be able to reduce its debts significantly, partly because larger capital investments, like those in eastern on debt, Page 18

Germany since 1989, would not be made in future.

Deutsche Telekom is still in talks with France Télécom. with whom it has an international alliance, about the possible sale of a stake to the French group.

Mr Sommer said a final decision about an equity swap between the two had not been taken, and analysts suggested that, if it happened, it would probably take place after tisation next spring. Lex, Page 16; Still to convince

Société Générale de Belgique,

Tractebel

stake in

Belgium's biggest holding company, yesterday agreed to raise its stake in Tractebel, the fast-growing Belgian energy group, from 40 to 65 per cent in a deal valued at BFr49bn (\$1.6bn). The move followed an

announcement that Baron Albert Frère, chairman of Groupe Bruxelles Lambert, Belgium's second biggest holding company, had approached SGB and offered to sell the 20.3 per cent Tractebel stake held by Electrafina, GBL's energy subsidiary. SGB snapped up a further

4.29 per cent of Tractebel held by Royal Belge, the insurance group, at the same price of BFr14,500 a share.

The deal will intensity interest in the famre of GBL which is keen to develop its media interests, which include CLT, the Luxembourg broadcaster. CLT recently merged its

television interests with Bertelsmann's Ula to create a company big enough to exploit the growth potential in digital television.

Under the deal, Tractebel's importance inside the SGB holding company would increase from 27 per cent to 40.7 per cent. This would be more than double the stakes in Generale de Banque of 18.4 per cent and the 12 per cent stake in Fortis, the insurance company.

The offer will remain open to Tractebel shareholders between October 9 and October 30, subject to approval of the Belgian banking and

In addition, SGB will offer free warrants with a buy-back provision extending to November 1999 at the same price of

The SGB offer stands at a The Korean market is too premium over Tractebel's closing price last night of

> president of SGB, defended the premium on the grounds that Tractebel shares were undervalued on the stock market. He said: "Our increased participation [in Tractebel] fits in with our general strategy." He stressed that SGE was under no obligation to make a full public offer for Tractebel

Deutsche Telekom, Europe's largest telecoms group, which is due to be partially privatised in November, yesterday forecast 1996 operating profits of more than DM6bn (\$4bn). It its net debts of DM96hn, a fig-ure which ranks the company mong the top 25 debtors in

DM60bn by 2000, reducing due to a one-off charge of

Telecommunications groups from Europe, Asia, Latin America and the US are pre-

paring to bid in late November

for a 35 per cent stake in

Companhia Riograndense de

Telecomunicações (CRT), a

regional operator controlled by the state of Rio Grands do Sul

The sale will transfer opera-

tional control of CRT to a part-

nership of the buyer and the state government and marks

the first step in the privatisa-

The federal government

hopes to sell concessions to

operate celiular services early

next year and to privatise 27

conventional operators by the

end of 1998. The CRT sale can

happen sooner because it is

the only telecoms group con-

trolled by a state government.

tion of Brazilian telecoms.

in southern Brazil.

alised in 1988. interim results, reported yes-

stock exchange listing, Mr Scoronar embl. Group net profits for the first six months were DM129m, 96 per cent lower than last year's figure of DM3.5bn. The

Sales in the first half fell 5.9 per cent to DM30.6bn, com-

second half.

Prince courts new deal



Prince, the artist formerly with Warner Music, has offered his

Samsung plays down hopes for Fokker deal

By John Burton in Sebul

Samsung, South Korea's biggest conglomerati, yester-day played down hopes it was about to acquire Fokker. It denied it had signed a letter of intent to purchase the bankrupt Dutch aircraft manufacturer and said it had only noti- ker marks the latest attempt fied the Seoul bourse of the by Korea to create a national possibility of a takeover.

Samsung's confirmation on Monday that it had filed a dis- after Samsung failed in a preclosure statement with the Seoul bourse had led to specu-lation that a deal was near. Nonetheless, Samsung was

issues were unresolved, includ-

ing talks with the South Korean government on possible state support for the takeover. "This is not a private initiative, but one that is being conducted in co-operation with the [Koreen] government." its renewed interest in Fok-

aerospace industry.

vious attempt to rescue the

the last," it said. A purchase of Fokker is led by disagreements and in

viewed by Samsung and the June Korea was excluded from alternative to an aborted statesponsored Sino-Korean project located in China or Korea. to build a 100-seat regional jet. Fokker collapsed in March the foundation for the country's entry into civilian aircraft manufacturing.

The Korean government has designated aircraft manufac-

ker could be concluded. "We strategic industry, which believe the outcome this time would reduce imports of airwill be more favourable than craft from the US and Europe. But the project was bedevil-

Korean government as an it after a dispute over whether the assembly facility should be The possibility that the Sino-The programme, amounced in Korean project would collapse 1993, had been seen in Seoul as had sparked Samsung's previ-

ous interest in Fokker, which it viewed as a source of tech-

small to sustain aircraft production by Samsung, although it is believed to be interested in starting a domestic sirline. Sales to such key Asian markets as China, Taiwan and

Singapore are seen as doubtful as these countries are participating in the project from which Korea was excluded. Aircraft production would also increase the financial bur-

den for Samsung at a time But some question the wis- when its main business of dom of Samsung competing in semiconductors is suffering But it said a number of optimistic that a deal for Fok-turing as a next-generation an industry that is already. from sharp profit falls.

Viscount Etienne Davignon, because it had enjoyed de facto control of the energy group since 1989.

Barry Riley

London's pension fund Europhiles revealed



seemed so sublime, at least before the US Reserve's inter-

est rate decision next week. It would seem churlish to suggest that this stock market

. The markets are simply going up, with London's Footsie Index approaching 4,000 and New York's Dow Jones Average within striking dis-tance of 6,000. There remains the niggling problem, though, that the valuation basis of equities globally is veering right off the top of the screen. It is a good time for an apdate on how UK pension then it appears to show only in fund managers are adjusting that their one-year returns are to these challenges. The same clustered close to the median basic judgments probably to an even greater than norapply to most of the UK-based mal degree.

global equity managers. An analysis by the UK pentwo measurement services, & Lybrand indicates that the WM and CAPS, show that 2 pooled funds of the leading per cent of the portfolios were managers have huddled taken out of UK equities in the closely to the CAPS median half-year, mostly being trans fund return (of about 18 per US exposures were run down months. still further, to only 2 or 3 per. There are two notable outcent of the portfolios for the hers: PDFM, which has under-

Rarely can the special dividends. Cash had conditions for drifted up to 6 or 7 per cent by the main stock June 30, no doubt providing some of the fuel for the subse-quent upward breakout by the style has paid off handsomely markets have some of the fuel for the subsemarkets. Bonds have attracted little

new money, although some of the big funds have raised their holdings of index-linked gilts for liability matching reasons. Overall, then, there is no strength is being generated by sign of risk aversion after the an unhealthy combination of 20 per cent-plus returns in sign of risk aversion after the cheap money and ballooning most of the main equity margovernment debt, in Europe kets during the year to June. If do - but in weak markets it

> UK-based institutions are positive about all the main markets except Wall St

Mid-year figures from the sion consulting arm of Coopers ferred into continental Europe. cent) during the past 12

smaller, more aggressive performed by about 6 per cent funds.

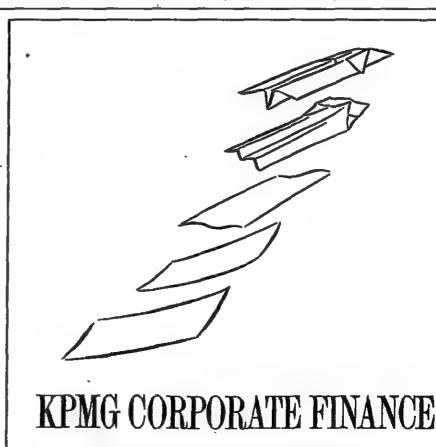
Overall equity exposure has dipped only slightly, and that . These pooled funds may not decline may have been warnly decline may have been merely perform precisely in line with ing the median strategy, whatan involuntary response to the segregated client portfolios, ever the investment risks their turns of buy-backs and but they give a clue to each clients may continue to bear.

manager's strategy and style.
PDFM is London's uncoming (and currently batover the long run, but recently weight in equities and it is underexposed to growth absolute value, but happily promise pleasant surprises. In bull markets they very often can be a different story.

September's Merrill Lynch tions remain positive on a oneyear view about all the main stock markets except Wall Street. But in the first six months the average pension fund return on overseas equities of 9.4 per cent continued than in 1995) by the underweighting of Wall Street, which knocked off about 30 basis points. On the other hand the overweighting of continental Europe added about the same in January-June.

Fine tuning apart, however attitudes remain entrenched The idea that equities may be less attractive at 20 per cent higher prices than a year ago, or 100 per cent higher than four years ago, plays no part in the thinking of most institutional investors.

But as the bull market may judge it wise to minimise their business risks by track-



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means business

COMPANIES AND FINANCE: EUROPE

Eni buoyed by reduction in financial charges

Eni, the Italian oil, gas and chemicals group, yesterday reported a net profit of L2,376bn (\$1.55bn) for the six months to June 30, an increase of 5 per cent on the first half of 1995, allowing

for accounting changes.
In the first half last year, Eni reported net profits of L2,615bn. However, it has since adopted a new US accounting standard which reduced this year's figure by

a 31 per cent year-on-year reduction in financial charges. In the first six months of 1996, net financial debt came down from L17,795bn to L15,078bn.

Turnover in the first half fell 4 per cent from L30,801bn to L29,444bn, and operating profit, before applying the new accounting standard, slipped from L6,253bn

Eni was held back by the cyclical keting increased operating profit Italy.

L382bn. Eni said yesterday its downturn in the petrochemicals by 41 per cent to L405bn from interim results had benefited from sector, which contributed L303bn in the first half of last year. of operating profit, compared with L1,332bn in the first half of 1995. The impact of falling prices and

demand was exacerbated by the appreciation of the lira, Eni said. Exploration and production generated operating profit of L2,688bn, against L2,611bn in the equivalent period, while natural gas activities lifted operating profit to L2,435bn from L2,064bn. Refining and marmainly because of improved margins in marketing.

The immediate reaction of some analysts yesterday was disappointment that the net profit was not higher, and that operating profits from exploration and production were lower than expected. The company pointed out that for technical reasons it had sold 1.1bn cubic metres less natural gas in

The Italian treasury is expected to outline terms for the sale of fur-ther shares in Eni within the next few days.

A first tranche of 15 per cent was sold in a public offer last November, in the biggest Italian privatisation issue ever, and a further tranche of about the same size should be sold next month. Mr Mario Draghi, director-general of the treasury, said last week the new issue might include incentives for small shareholders.

EUROPEAN NEWS DIGEST

SBC set to unveil domestic revamp

Swiss Bank Corporation, which has been expanding its international business rapidly, is expected to autounce today a significant restructuring of its domestic Swiss business. The bank is the smallest of the big three Swiss banks but has the largest branch network and its operating expenses are higher than those of Union Hank of Switzerland, the market leader.

Mr Marc Ospel, chief executive, is expected to outline the changes in Basle this morning. The bank refused to comment on speculation that the changes would also involve a reorganisation of asset management and private banking. However, the presence at today's meeting of Mr Franz Menotti, head of the group's domestic business, led analysts to believe there would be a heavy domestic content in the changes. Ms Susanne Borer, of Bank Vontobel, said that SBC, as the smallest of the hig three, had to get critical mass or restructure its domestic William Hall, Zurich

eutsche Telekom still to convince on

Deutsche Telekom first-half results

	1996 Tiral faulf DM	1995 First half DM	% change
Sales	30.63bn +	32.55bn	-5.8
Operating profits Extraordinary losses	2.71bn	5.43bn 285m	-50 546
Net profits (Profit)* (oss applicable to minority shareholder	204m 75m	3.51bn 1m	-94.2 n/a
Group net profit	129m	3.51bn	-96.5



Ron Sommer (right) yesterday, with company spokesman Jürgen Kindervater: expects debt at DM60bn by 2000

investors thinking about buying Deutsche Telekom shares was not trumpeted very loudly when the German telecoms group released its first set of six-month results yesterday.

During a presentation at its plush headquarters in Bonn, the group declined to say how quickly it would be able to reduce its net debta of DM98bn (\$66.2m) - a debt mountain that cost DM3.7hn to service in the first six months alone, and is so large that it could yet eclipse Europe's largest initial public offering of shares.

Privately, however, Mr Ron Sommer, chief executive, has said that he expects debt to fall to about DM60bn by 2000. Cash flow in the first half was DM12.5bn.

That is still significant, but if Deutsche Telekom can significantly reduce its debts by 2000, it will have freed funds which are likely to be badly needed to fend off competitors in Europe's largest telecoms market.

To date, only segments of

mobile communications highest of any telecoms operhave been opened to compe-tition but, in recent years, that alone has cost Deutsche Telekom up to 2 per cent of its market share annually, Mr Sommer said vesterday.

Full liberalisation, moreover, is not far off and will allow an unlimited number of operators into the German. market after January 1 1998. Few analysts expect those newcomers to make big inroads immediately, even though several of them, such

ish Telecommunications, are hardly newcomers to By 2000, however, they will have got the hang of the telecoms game in Germany and could - if an aggressive regulatory regime is in place

as AT&T of the US and Brit-

inroads into Deutsche Telekom's 42m client base. How the group will per-form in the face of that competition - and what sort of dividends shareholders could expect as a result - remains a guessing game.

- be making significant

For one, Deutsche Telethe German market such as kom's personnel costs - the

ators in Europe - are falling for online services and ISDN and are set to drop further (the broad band telecoms as another 37,000 jobs are

shed by 2000. Like the debt, however, those costs may not be fall-ing fast enough. In the first six months, fewer of the more expensive civil servants left the company than cheaper workers.

While Deutsche Telekom will not create any new civil servants, analysts say that the group still runs the risk of having a workforce which is considerably more expensive than those of its competitors.

Just how much more expensive that workforce could be was underlined by Mr Joachim Kröske, finance director, who pointed out yesterday that the civil servants – who still make up 50 per cent of Doutsche Telekom's workforce - are 10 per cent more expensive than other executives when it comes to pension plans.

The good news, meanwhile, suggests that the German telecoms market is taking well to a number of

network needed for interactive services) are up sharply and look set to continue their upward trend: online subscriptions alone have doubled from 14m to 28m during the last year.

It is these new businesses which Mr Sommer, the onetime Sony executive, has targeted in order to expand his sales in the face of the growing competition.

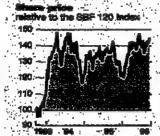
Given that he already has the world's biggest ISDN net-work and 16m clients hooked up to the world's biggest cable television network, he is clearly not starting with an empty hand.

But while Mr Sommer focuses on potential new services, analysts and investors are still focusing on the old debt mountain.

Convincing them that this debt is manageable looks to be his most difficult task.

> Michael Lindemann







Sales fall hits Union Minière

Union Minière, the Belgian conglomerate, suid first-half net profit fell from BFr311m to BFr218m (\$7m) as sales dropped from BFr71.5bn to BFr64.7bn. Profit before exception: items and tax fell from BFr1.1bn a year ago to BFr782m. The group

said second-half profit before exceptional items and tax should be higher than in the first half, as long as metals prices did not fall significantly. Union Minière said operating profits fell from BFr1.493bn to BFr829m while financial

costs shrank from BFr488m to BFr117m. The fall in profit before exceptional items and tax reflected the downturn in the transformation, diamond and construction sectors, offset by a rise in recycling and refining activity profits and much lower financial costs. AFX Neces, Brussels and much lower financial costs.

Sonae ahead and upbeat

Sonae investimentos, the holding company for Portugal's biggest retail and industrial conglomerate, forecast an 84 per cent increase in net profits for 1996, after minorities and excluding extraordinary income, from £84.5bn in 1985 to £88.3bn (\$53.5m). It said earnings per share,

discounting extraordinary profits, would rise from Es173 in 1995 to Es208. But analysts said earnings per share on underlying profits could jump to Es288 because income from some commercial real estate sales this year should be considered as extraordinary profit.

On the basis of a fall in extraordinary income from Ess.3bn in 1995 to a forecast Es5.6bn this year, Sonae Investimentos projected an increase in full-year net consolidated profit from Es12.9bn in 1995 to Es13.9bn.

The shares closed at Es4,440 yesterday, down from Es4,615. The group posted a 166 per cent increase in first-half net consolidated profits, after minorities and excluding extraordinary earnings, from Es1.2bn to Es3.1bn. Sales rose 29 per cent from Es159bn to Es205bn and Sonse forecast a similar increase to Es460bn for the full year. Under a planned demerger involving the listing of a separate company for Sonae's industrial operations in 1997, the group said shareholders would be offered one share in the new enterprise for every two shares held in

Ramon Masip of Nestlé dies

Mr Ramon Masip, chief operating officer for food at Nestlé, the Swiss food conglomerate, died yesterday. He was 55. Nestlé said Mr Masip had planned to retire from the post next year for health reasons and had been proposed for election to the Nestlé board.

Michelin solid at operating level

Though

By David Owen in Paris

Michelin, the French tyremaker, yesterday reported a decline of 11 per cent in first-half net profits, from FFr1.51bn to FFr1.35bn (\$262.5m), after making a FFr709m exceptional provision for its Spanish

Operating profits, by

contrast, were ahead more than 30 per cent, propelled from FFr2.76bn to FFr3.62bn. by lower production costs. An exceptional charge of improvement in average mainly to the restructuring selling prices. Turnover rose 5.4 per cent, from FFr33.11bn to FFr34.91bn.

This, together with the group's upbeat outlook for the balance of the year, is what the market appeared the shares rose strongly to

gain of FFr5.10, or 2 per cent. "Michelin is showing the

benefits of being a really international company," said Mr Patrice Solaro, an analyst with Cheuvreux de Virieu, the French stockbroker. Cheuvreux yesterday added the Clermont Ferrand-based company to its top 10 list of

Operating profits were up cent FFT728m w as taken, relatins at Neumáticos Michelin, the group's Spanish subsidiary.

The company said the shake-up would mean job cuts at the unit of 1,000, to between 8,000 and 9,000. The programme would run for three or four years, starting

response to the results. What is very interesting

is that the company expects to get the cost of the provision back within two years," said Cheuvreux's Mr "If they had adopted the

same measures in any other

surprised analysts - and prompted some to revise down their full-year profit forecasts - it did not affect the generally favourable

European country, would not have had to pass a In the first half of 1995, the group made an exceptional gain of FFr221m from the sale of buildings and

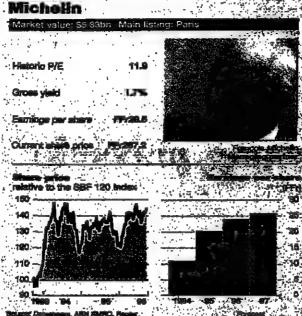
property in Singapore. Commenting on the second-half outlook, Michelin said global activity

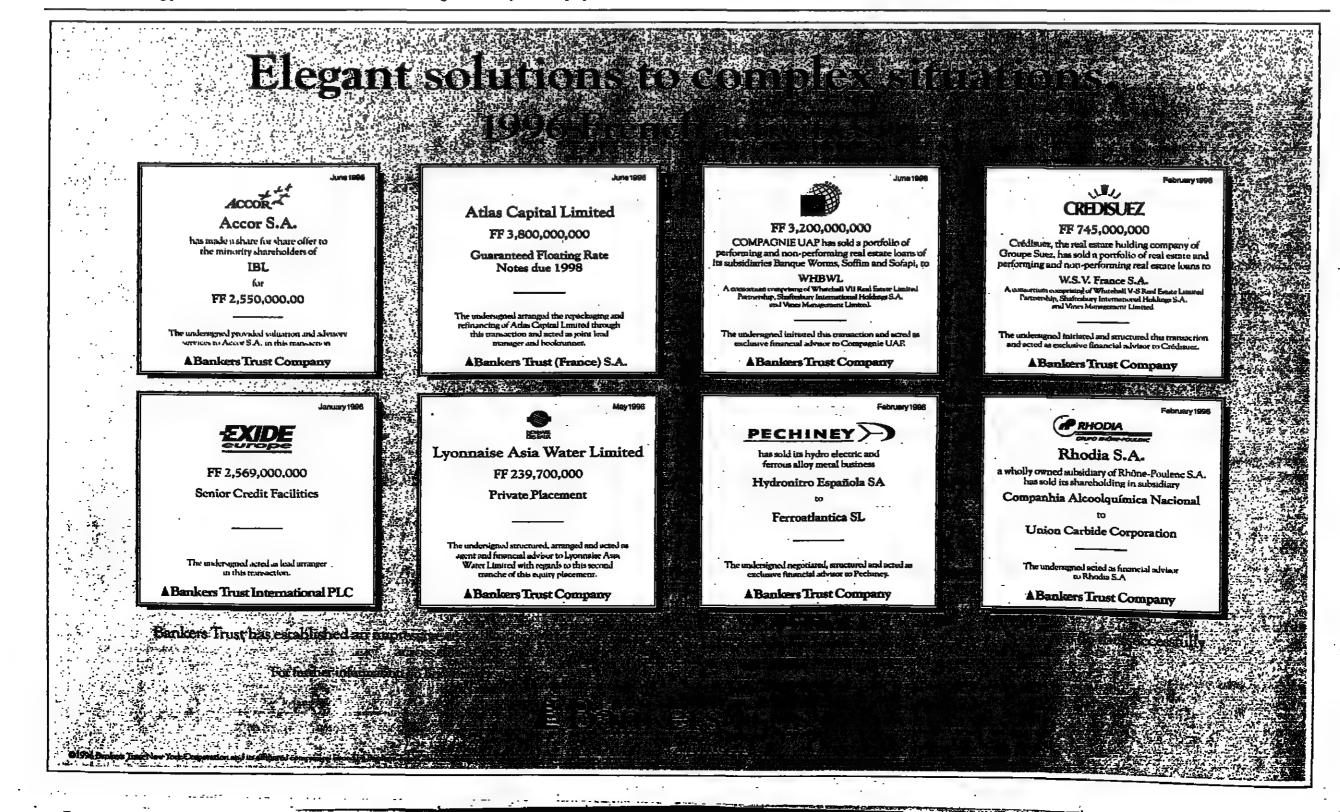
the charge in its markets had held up well in the summer and should reach "a satisfactory level" over the full year. It said reduced costs would continue to play "a favourable role". The company was on track to "confirm the progress it had made since 1994".

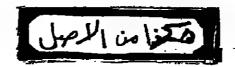
Mr Eric Bourdais de Charbonnière, finance director, said: "We have never sold as many tyres at Michelin as in the first half The company said net debt

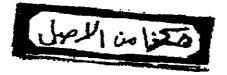
had risen from FFr21.5bn on June 30 1995 to FFr23.2bn a Its net debt to equity ratio was 121 per cent, or 197 per cent if FFr4.9bn of subordinated debt was

considered as debt rather









COMPANIES AND FINANCE: EUROPE

Pathé warns of second-half decline

By Andrew Jack in Paris

Sterry

to unveil

Hillbrid

Vorweller die

Billy of

The chairman of Pathé, the French media group formed out of the demerger of the Chargeurs conglomerate earlier this year, warned yesterday that second-half profits would be well below those for the first six

Mr Jérôme Seydoux said that delays in a number of projects, including CanalSatellite and films it had backed, would drag revenues below forecast levels.

His comments follow publication "trading" and not a "strategic" He said Libération, the left-wing did not indicate a policy last week of Pathé's first results as a holding, which he would enlarge daily newspaper in which Pathé high dividends each year. His comments follow publication

income of FEr54m (\$10.5m), compared with a pro-forma profit of FFr128m for the first six months of 1995.

Mr Seydoux said the delayed launch of CanalSatellite, the satellite broadcasting arm of Canal Plus in which Pathé owns 20 per cent, meant costs from an advertising campaign and delays in revenue from subscribers.

He said Pathe's stake in the parent Canal Plus, which works out at just below 8 per cent, was a "trading" and not a "strategic" He said Canal Plus's recent merger

with the pay-TV operator. NetHold was "a good operation", even if it needed beavy initial investment. Pathé had no plans to launch new

films during the second half of this year, so revenues would be lower from this division. Mr Seydoux said it was ready to open two new multiplex cinemas in France - in Grenoble and Marseille - next year, and three in the Netherlands by the end of 1998.

separate company, showing not or reduce depending on the has acquired majority control, would be consolidated in the second half. He predicted a modest loss for 1996. which is already recorded on the balance sheet at FFr61m, on turnover of

about FFr400m. He said he was confident the heavy discount at which Pathe's shares trade to their net asset value would diminish over time.

Additional assets may be sold to cut debt levels, which now stand at about FFr500m, Mr Seydoux said. He promised that Pathé would pay a dividend for the year, although this did not indicate a policy of paying

Telefónica chases Romanian **GSM** deal

By David White in Madrid

Spain's Telefónica group is preparing to take legal action against the Romanian government if it fails to obtain permission to operate a new digital mobile

telephone service. Mr Marcial Portels, managing director of Telefonica Internacional (Tisa), the group's overseas subsidiary, was due to fly to Bucharest yesterday to seek a settlement in the dispute.

The Spanish operator claims it received guarantees four years ago that it would be allowed to set up a digital service using the Global System for Mobile Communications (GSM) standard.

However, the Romanian authorities have called a tender for the issuing of two GSM licences this month.

Stet of Italy has formed a consortium with Bouygnes of France and Balli Group of the UK, backed by Goldman Sachs, the US investment bank, while Motorola of the US has linked with TeleDanmark, Telenor of Finland and two private-sector Romanian companies.

Telefónica is underwiood to have offered to pay an entry fee but is not taking part in the tender, arguing that because of its previous arrangement it should not have to compete for a

Mr Portala's mission followed the abrupt departure on Monday of Mr German Ancochea as chairman of Tisa and managing director of the Telefónica group.

The move, the timing of which was unexpected, was thought to reflect a personality clash between Mr Ancoches, who had been in post since 1989, and Mr Juan Villalongs, the new chairman of the 21 per cent state-owned group, appointed by the centre**EUROPEAN NEWS DIGEST**

CFF investors take action against Cob

Shareholders in Crédit Foncier de France, the specialist property bank, yesterday launched legal action against the Cob, the country's stock market watchdog, in the latest attempt to block the takeover bid launched by the state earlier this month. Ms Colette Neuville, head of Adam, the association for the defence of minority shareholders, said 680 Crédit Foncier investors had signed a complaint that the Cob should not have approved the takeover document because the state had not formally stated its responsibilities.

The state launched a FFr2.6bn (\$506m) bid for Crédit Foncier at FFr70 a share, a price which was supported by its advisers. However, the price was at the bottom of a range given in a second valuation by Détroyat, an equity research firm, which suggested the shares were worth up to FP198 mich.

Yesterday's news was a positive development for shareholders objecting to the takeover. It comes after the the Paris commercial court decided earlier this month to rule out investors' demands for a separate independent valuation. Separately, the court will hold hearings on September 24 to judge whether shareholders are justified in their claim that the vote at Credit Foncier's general meeting at the end of June to approve its 1995 accounts Andrew Jack, Paris

Disposal hits Club Med sales

Club Mediterranée, the French leisure and resort group specialising in exotic holiday destinations, reported sales for the nine months to July 31 of FFr5.84bn (\$1.1bn), down 7.7 per cent from FFr6.32bn for the same period last year. It blamed the fall mainly on the sale in December of its 48.8 per cent stake in Maeva, the holiday homes company, to fellow French leisure group Havas. Maeva generated sales of FFr311m last year. After accounting for changes in group structure and exchange fluctuations, sales for the period at Club Mediterranée were down 2.1 per cent. AFX News, Paris

Cypriot bank ahead 10%

The Popular Bank, Cyprus' second largest, announced a 13 per cent rise in first-half operating profits and an interim dividend of 8 per cent. Net profits were up 10 per cent to C\$9.7m (\$20.7m). Mr Kikis Lezarides, chairman. said 14 per cent of the bank's profits came from operations in Greece and the UK.

Andreas Hadjipapas, Nicosia

Snia Fibre reduces deficit

Snia Fibre, the fibres division of Fiat of Italy, incurred first-half pre-tax losses of L3.1bn (\$2m), compared with a deficit of L5.9bn last year. First-half operating profits rose 2.7 per cent to L19.1bn. Sales fell 3.4 per cent to L547.5bn. Parent pre-tax losses were L2.5bn, against L4.8bn.

Caffero, another Fiat subsidiary, posted first-half pre-tax profits up from L27.8bn to L38.1bn. Operating profits were up 18.2 per cent at L43.6bn. Sales rose 18 per cent to L575.2bn. Parent pre-tax profit rose from L4.7bn to L24.1bn on sales of L85.4bn compared with L112.5bn. AFX News, Millon

Estonian bank aims to be Baltic's Hong Kong

tower that Hansapank making fifth-largest Latvian recoveries, put up in Tallinn, the institution, in a share swap Hansa's Estonian capital (right), masks the humble roots of one of central Europe's premier banks.

Nine young Estonians started Hansa in 1992, recalls Mr Hannes Tamjärv, its chairman, with a pooled 30m roubles - about \$150,000. Besides capital, he says, the bank also lacked "old attitudes and old loan books". But Hansa chose the right moment to come on the scene: when state-owned dinosaurs were suffering. Growth has been impressive. Net income has risen fivefold in the past three years

controls a quarter of the Hansa's ambitions go beyond Estonia. Its strategy is to become the first pan-Beitic bank, serving Latvia and Lithuania too, and providing an island of security next to the large and volatile Russian market - as Hong

to EKr76.7m (\$6.5m) in the

first half of 1996; and it

Kong does for China. The coming months will be an important test for Hansa, which has never seen bad times. The first piece in the expansion puzzle was put in place earlier this year. worth EKr138.6m. DLB surrebound, reporting a ness, although traditional EKr5.1m profit in the first and stable fee and deposit balf of 1996.

"We define our market as the Baltic market," Mr Tamjärv says. "Growth is limited in Estonia [a country of 1.5m people). But if things turn out well in Latvia, it would be logical to go into Lithuania'

Analysts believe the deeper pockets of Hansa, the biggest bank in the three Baltic countries, can steal corporate clients from Latvian competitors. Latvian banks are still realing from a benking crisis last year, when nearly 40 per cent of the sector went under with Banka Baltija, then the biggest regional bank.

But expansion carries risks - particularly in Latvie, where banks had come to rely on Russian transit trade capital in a loosely regulated environment.

However, the bank diversification of its loan portfolio will reduce the impact of a shock in any one of its markets, All three Hansa took over Deutsche countries are expecting near EKr90 today. Trading sepenk, apart from Gazprom

Hansa's growth has been fuelled by corporate and prised many with a quick international financing busiareas are strong too, with non-interest income accounting for 48 per cent of the total in the first half. The danger for Hansa, and Estonian banks with low reserves, is that bad loans

> To spread itself, Hansa has moved aggres-A sively at home. The best-performing subsidiary was Hansa Leasing, showing a EKr18.1m profit through June. Its insurance arm. launched this year, will take longer to show a return. The group has also attempted to develop in

would accumulate quickly in

a recention.

investment banking, with mixed results. Two funds put up by its Hansa Investments subsidiary never took off. But Hansa Invest has handled several large share issues, including a forthcombelieves the strategy will ing one for Holupank, a pay off in the long term. The savings bank.

ignored the success. Hansa-

pank stock began the year at EKr40 in Estonia, and trades

FM36 in the same period. The markets have not

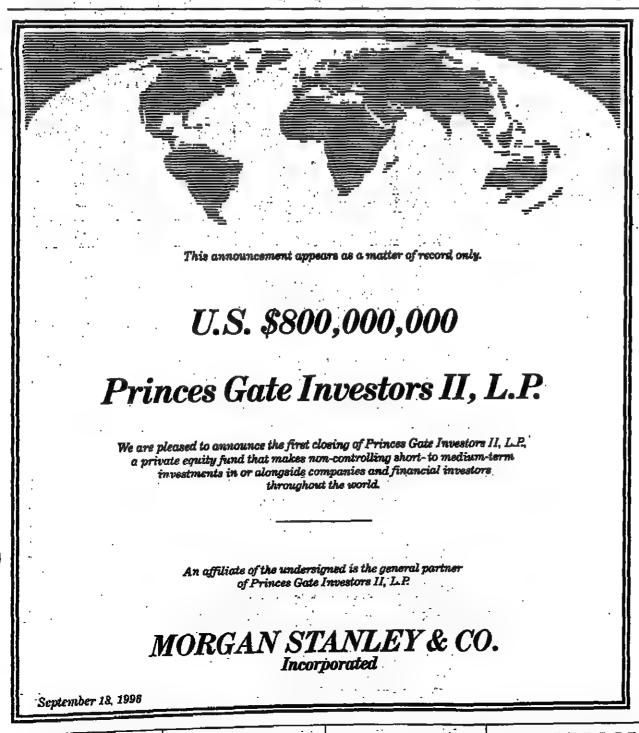
volumes have been smaller and Lukoil, the two large in Helsinki, but the share price went up from FM15 to "Hansapank is the best

way for foreign investors to gain exposure to the Estonian market," says Mr Tom Bystedt, head of equities at Epskilda Securities in Helsinki, though he warns that Hansa stock lacks liquidity. Another analyst says Han-

Russian energy groups, might be the "most lucrative stock in the ex-USSR". Compared with similarly sized central European banks, saya Nomura, it is selling at a discount.

Judged by its present strengths, analysts believe. Hansa could become the dominant regional bank.

Matthew Kaminski





BANK OF GREECE US\$500,000,000 Floating rate notes 1998 Notice is hereby given that the notes will bear interest at 6,3125% per annum for the period 18 September 1996 to 18 December 1996. Interes able on 18 December 1996

per US\$1,000 note will on to US\$15.96. Agent: Morgan Guaranty Trust Company **JPMorgan**

European Investment Bank Italian Lira 350 Billion Roating Rate Notes due December 1999

Notice to the Holders Notice is hereby given that the Notes will carry an interest rate of 8.1875 % per arrhum for the period 16.09.1996 to 16.12.1996. ITL 103,481 per ITL 5,000,000 nominal ITL 1,034,809

per ITL 50,000,000 nominal

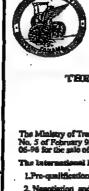
usembourg, September 18, 1996



Capped Floating Rate Notes due 1999 Notice to the Holders Notice is hereby given that the of 8.9375 % per annum for the period 16.09.1998 to 16.12,1996. • (TL 112,960 per (TL 5,000,000 nominal • (TL 1,129,501

per ITL 50,000,000 nominal

Residential Property Securities No.3 PLC TI207000'000 Class A2 Notes ortgage Backed Floati Rate Notes due 2025 be a principal repayment of 45,838 per 1100,000 Note pursuant to Clotters (Sb) of the Notes on the insere ns dans 27th September 1996.



REPUBLIC OF PANAMA CONVOCATION ANNOUNCEMENT SECOND PRE-QUALIFICATION

INTERNATIONAL PUBLIC BID No. 06-96 FOR THE SALE OF UP TO 49% OF THE SHARES OF THE INSTITUTO NACIONAL DE TELECOMUNICACIONES, S.A. (INTEL, S.A.) WITH THE RIGHT TO OPERATE THE COMPANY

CONDITIONS FOR PRE- QUALIFICATION Based on Merits and Background

The Ministry of Treasury, the CBO and legal representative of the Institute Nacional de Thiconnumications, S.A., (INTEL, S.A.), properly authorized by Low No. 5 of February 9, 1995 and its Board of Directors, invite the operators of telecommunications interested in porticipating in the International Public Bid No. 06-96 for the sale of up to 49% of the shares of INTEL, S.A., requiring them to substit their credentials to pre-qualify for said process. The International Public Bid will comprise three stages

1 Pre-confiffeeting of interested pogrations:

2. Negotietion and Homologation of the do rits of the Bid with the prequelified particip

Technical and Quality of Service Requires

falco of telephony services greater then one and a helf million (1,500,000) lines and/or principal elignos in service. - Repair of seventy percent (70%) of talephone finits in twenty - four (34) hours after having received the first complaint and ninety percent (90%)

in forty-clobs (48) hours after having received the first complaint

nai plus local calls completed granter than nivery percent (90%).

tions of new telephone services greater than minety persons (90%) within thirty (30) days after—baving received the request.

 Possest a rejainmen consolidated stockholder's equity of two thousand raillion. United States deliers (US \$2,000,000,000,000,000) se of December 31, 1995, or ess a credit rating for senior unsecured long-tarm debt greater than Bea2 according to Mondy's and BBB according to Standard & Poor's.

The application must include the following:

1. Application Form for Pre-qualification.

2. Receipt for proof of payment of the Price for the Conditions for Pre-qualification D 3. Cartification of Credit Rating from Moody's or Standard & Poor's.

tion of the appropriate competent authority validating the legal secis

er of the natural person who subscribed the application in the name and in representation of the company.

nation requested in Annex I (Pre-qualification Criteria) of the Conditions for Pre-qualification Document, and

entity in the country of origin or , if not available, from external auditors of recognized international prestiga-

General description of the services offered, validating: Degree of telephony penetration (member of lines each 100 people aways of Alignations of the central and transmission yearway.

 Number of employees for each one thousand (1000) lines of secess to the service. R. Amusal renorm and studied financial statements of the last five (5) fiscal years.

9. Information about the shareholder structure of the company, such as:

centage of cominal shares with an indication of their significant bolders (more than 15%),

- Percentage of shares which are publicly unded.

For those shareholders who control more than five percent (5%), the following is required: name, address, percentage of participation and if have a member in the Board of Directors of the participating company.

Purchase of the Conditions for Pro-qualifications Document

The Conditions for Pre-qualification Document can be obtained between September 11 and October 29, 1996, at the INTEL, S floor, Officina de Restructuración, in the Torre INTEL, S.A., Condominio Plaza Internacional, Via España, Panama City, Repu a.m. and 4:30 p.m. Telephone (507)269-4511 and Facsimile (507)223-2433.

The purchase price for the Conditions for Pre-qualification Document is twenty thousand United States dollars (US\$20,000.00) payable by certified cheque or bank cheque to the name of INTEL, S.A. This payment is not rembursable. Purchase Price for the Bid Documents:

The purchase price for the bid documents to initiate regestation with prequalified participants is fifty thousand United States dollars (USS 50,000.00) payable by certified chaque or bank chaque to the name of INTEL, S.A. This payabat is not reinforceable. Prescription of the Document for Pre-Qualifications

The presentation of the document for pre-qualification will take place on October 29, 1996 from 10:00 a.m. to 10:39 a.m., in a public ceremony in the Salón de Reuniones del Ministero de Hacienda y Tesoro, dos piso del Ministerio de Hacienda y Tesoro, Ave. Però y Calle 36, Pasama City, Republic of Pasama. The interested parties can submit their questions about the Pre-qualification Process in writing to Ministerio de Hacienda y Tesoro until October 14, 1996, via faceballe (507) 227-23 §7, P. O. BOX 7304, Pasamá, 5, Pasamá, Atm. Obsedo David Miranda Jr., Ministry of the Treasury.

Law No. 5 of 1996, "By which the Instituto Nacional de Telecommicaciones is Restructured", Law No. 26 of 1996. "By which the Regulatory Entity for Public Services is created", and Law No. 31 of 1996, "By which dispositions for the Regulations of Telecommunications in Panama are exacted".

Lower tax helps David Jones beat prospectus

By Bruce Jacques in Sydney

David Jones, the Australian department store retailer, has narrowly beaten its prospectus forecasts with net earnings of A\$67.5m (US\$58.2m) in the year to July, its first as a public company.

The performance was attributed mainly to a lower than expected tax bill. The net profit was 4.5 per cent ahead of the prospectus, while the A\$98.3m pre-tax result was 11.5 Tax provision halved to A\$18.6m two-thirds of its annual profit in

due to recognition of previously unbooked tax benefits of A\$41.2m. The company will pay a final dividend of 6 cents a share, bringing the annual payout to 12 cents, in line with the prospectus.

Sales, at A\$1.44bn, were 2 per cent below forecast, which was blamed on weaker consumer demand. The company described the result as "disappointing", blaming difficult trading conditions, especially in the second half.

The company earned more than

the first half, which included the ever, the company does not expect Christmas period, and David Jones chief executive Mr Chris Tideman warned of continued tough market conditions in retailing.

"The company protected its margins by not aggressively pursuing discount activity," he said. "Retail sales in August have generally continued at similar levels to that experienced in the fourth quarter."

The strength of our market position will ensure that we are well placed to benefit when the retail environment improves. How-

any material improvement in the retail environment in the short term.

Mr Tideman outlined a programme of heavy capital expenditure, involving new stores, refurbishments and investments in information technology, Capital expenditure rose from A\$46.5m to A\$55m in the latest year.

He also foreshadowed continued restructuring of the business. including improved stock control and staff rostering and the estab-

lishment of a new credit system. The company terminated its credit card securitisation arrangements in the year, bringing A\$166m of credit card receivables on to the balance sheet. This was mainly financed by a draw-down of a

\$128m facility. The result was an increase from A\$130m to A\$250m in long-term borrowings and a rise from A\$10m to A\$12.2m in interest expense. The shares eased 1 cent to A\$1.65

yesterday, against a peak of A\$2.09 after flotation late last year.

Weak markets trading hits Nikko forecast

Nikko Securities, one of Japan's Big Four brokers, yesterday slashed its interim and annual earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange hit commission

The broker said it now expected Y20bn (\$181.2m) in unconsolidated recurring profits - before extraordinary items and tax - for the first half to September, down 22 per cent from the previous year and little over half its initial projection of

Parent interim after-tax profits are now expected to total Y9bn, down 48 per cent from a year before and half its earlier forecast of Y18bn. Operating revenues were also revised downwards, from Y165bn to Y138bn, close to last year's total

Nikko, which is the country's third-largest broker on a operating revenue basis, following Nomura Securities and Daiwa Securities, blamed the unexpected downward revision on the trading slump in July and August, when overseas and domestic investors refrained from activity on fears of an imminent cut in interest rates and volatility on Wall

at the start of the year, turned net sellers. This came amid concerns of extra supply as hanks announced they would dip into the market to

boost their capital ratios. The auction ahead of the partial privatisation of West Japan Railway, scheduled for next month, also dampened activity.

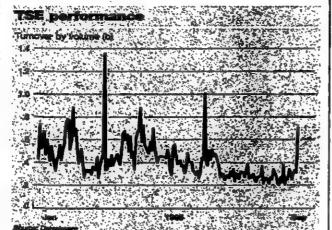
Although the company had expected daily trading volume on the Tokyo Stock Exchange to average Y500bn during the first half, the actual figure was only Y430bn. Analysts expect other brokers to follow Nikko in revising earnings projections downwards.

The decline in market activity resulted in a 9.2 per cent fall in first-half brokerage commission revenue forecasts, to Y118bn, including a cut in stock brokerage commission projections from Y61bn to Y44bn, said Mr Katsuyuki Ishiomaru, a senior managing director. The company also suffered from a decline in other stock market fees and profits on its own portfolio trading. Nikko also cut its earnings

estimate for the full year to March. Mr Ishiomaru said the company would try to regain lost ground from faltering stock commissions in the first half through gains in stock and bond trading on its own account per cant from the previous



Looking for business: share trading in Japan



during the second term. The company now expects full-year unconsolidated

profits to decline 28.8 per cent to Y33.7bn. Operating recurring earnings to fall 7.7 revenues are expected to rise

First Pacific arm to manage Bonifacio site

First Pacific Davies, the property arm of Hong Kongbased First Pacific, yesterday signed an agreement to manage the development of Manila's 440 ha Fort Bonifacontract "as one of the largest of its kind in the world".

The deal, whose value was not disclosed, gives First Pacific 40 per cent of a joint venture to oversee the 20year to 25-year development of Bonifacio city. With 8.6m sq m to develop - roughly the size of Boston's business district in the US - the company would be "master-planning" the largest urban project in the Philippines.

"We cannot begin to estimate the revenue stream from this," said Mr Lindsay Orr, head of First Pacific Davies's Philippines office. "We basically have a 50-year contract to manage the hori-zontal development of Bonifacio, including property services, land administration ind infrastructure." Fort Bonifacio Develop-

ment Corporation (FBCD), which is 55 per cent-owned by a 17-member private consortium led by Metro Pacific, First Pacific's Philippine holding company, and 45 per cent by the Philippine government, plans to break ground on the development by the end of the year.

The project, which will produce a business centre twice the size of Makati, <u>Manila's main business dia-</u> trict, will also include an underground railway, an overground railway terminal, and residential capacity for up to 500,000 people. The consortium, which paid a record 39bn pesos (US\$1.5bm) last year for its 214 ha share

of the site, is expected to list

on the Philippine stock exchange next year. It has already pre-sold lots covering 16 ha, at an average price of 180,000 pesos a square metre, or more than five times the original auction price. The consortium also plans to set up a university in the city and has signed a memorandum of understanding with Harvard University to build a medical

First Pacific Davies, which will hand out sub-contracts for the water, telecommunications and transport infrastructure, will be paid on a fee basis for services pro-

With Smart Communications, the telecoms arm of Metro Pacific, having already been awarded the government contract to install phones, analysts say it is clear the project will be dominated by First Pacific and its subsidiaries. Philippines Survey - sepaASIA-PACIFIC NEWS DIGEST

Kyocera to spin off solar energy unit

Kyocera, the Japanese producer of high performance ceramics and electronic components, is to spin off its home solar energy business into a separate company. Kyocera said the split was designed to help the unit boost marketing to residential buyers, leaving the parent to concentrate on research and development and sales of solar energy equipment to industrial users. The spin-off is an unusual step for a Japanese company, as they tend to keep diversifications in-house in keeping with their corporate group ethic.

The new company. Kyocera Solar Corporation, will be launched on Friday with capital of Y300m (\$2.7m) and a staff of 110, mostly sales people, to start operations in November. It aims to have 100 sales outlets in Japan by the end of the decade, with annual sales of Y60bn in solar panels and water boiling equipment, Kyocern bases the projection on the growing trend for

environmentally-friendly products among the Japanese. It believes Japan will be one of the first countries to feel the effects of an eventual oil shortage in the future.

Solar energy is a small part of Kyocera's business. Its financial results are not disclosed in detail, but solar equipment is part of its consumer products division, which reported sales of Y36bn, or 5.6 per cent of the group total, in the year to last March. Kyocera's consolidated sales rose nearly 30 per cent to Y647.1bn last year, on which pre-tax profits more than doubled to Y163.7bn. William Dawkins, Tokyo

LG Semicon IPO still on

LG Semicon, the semiconductor unit of South Korea's LG Group, will proceed with a Won200bn (\$241.3m) initial public offering today and tomorrow in spite of a sharp fall in global semiconductor prices and a weak Seoul stock market. LG Semicoo, which will be listed on the Seoul stock exchange on November 5, predicts that 1996 net sarnings will fall 88 per cent to Won132m, as sales decline 2.9 per cent to Won2,440bn.

The subscription price for the 10m shares on offer is set at Won20,000 each, with an individual investor limit of 1,000 shares. Samsung Electronics, the only big Korean emiconductor company that is listed, is now trading at

In spite of the poor market conditions, equities analysts say LG Semicon must proceed with the IPO because of the possibility of it still recording a loss this year, which would prevent it from gaining a listing until at least 2000. Under Seoul stock exchange rules, no company can issue an IPO until it has reported three consecutive years of net

sarnings of at least Won5bn. Hyundai Electronics, another Korean semiconductor nanufacturer, plans a Won200bn IPO in November that will be almost identical to the LG issue, with a subscription price of Won20,000 a share.

Nintendo game for Europe

Nintendo, the Japanese computer games group, yesterday said it would start selling its new 64-bit video game

machine Nintendo64 in Europe next March. The machine will be sold in Germany for DM399 (\$364), but prices for other countries have yet to be announced. The machine was launched in Japan in June and will appear on the shelves in the US at the end of this month Agencies, Tokyo

NOTICE TO THE HOLDERS OF INTERNATIONAL DEPOSITARY RECEIPTS ESUED BY MORGAN GUARANTY TRUST COMMANY OF NEW YORK IN

THE KOREA-EUROPE FUND LIMITED

1 for 3 Rights Offer of new IDRs at US\$3,125 per new IDR

Accordingly, the Depositary isrably offers to issue to each IDR-Holder, subject to (i) the admission of the New States to the Official List of the London State becoming effective by not later than 8.30 a.m. on 18th September, 1996 (or such later time and/or date as the Congrany and Robert Fleming & Co. Limited ("Fleming agree, not being later than 8.30 a.m. on 23rd September, 1996) and (ii) the Depositary (or its nomines) receiving share cartificates und/or a fully paid provisional allow acts in respect of the requisite number of New States, and subject to the terms and conditions are out in this Postice and the Acceptance Form referred to below each 3 IDRs held by him at an ususe price of USS3,125 for each new IDR (such offer being referred to herein as the "Rights Offer"). Fractions of new IDRs will not be 1DR-Holders may become untitled to receive cuts under the procedures described in paragraphs 4 below. The new IDRs, when issued, will reach paragraph in all respect IDRs now in issue, save that they will not qualify for the special interim dividend declared by the Company on I Its September, 1996. IDR-Holders withing to accept the Indian section of the IDR-Holders withing the acceptance forms ("Acceptance Forms") from the Depositary by Riephoning on (322) 508 \$449.

An IDR-Holder wishing to accept the Rights Offer must deliver as Acceptance Form dely completed and signed, together with (i) a resultance for the full amount page receptance and (ii) the relevant number of Coupons No. 10 (being 3 Coupons for each 1 new IDR accepted), to the Depositary at its officer at Avenue des Arts 35, 8-10 and the relevant number of Coupons No. 10 (being 3 Coupons for each 1 new IDR accepted), to the Depositary at its officer at Avenue des Arts 35, 8-10 and the relevant of the attention of Katin Deposits year, in its absolutely with an IDR-Holder that remitteness and Coupons may be delivered at a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time on 8th October, 1996. Relevances in his Notice to as "IDR-Holder" as a later time of the IDR-Holder the IDR-Holder time of the IDR-Holder t

Unless proviously agreed with the Depositary, paymensy most be made by a dellar bunker's draft drawn on a New York bank. Bunkers' chaffs should be organ Guaranty Trast Company of New York, Brussels Office" and crossed "A/C Payer". No interest will be allowed on payments made. The Depositary accept the bunkers' drafts for payments upon receipt and to seek special elearance of bunkers' drafts to obtain value for remittances at the earliest opportunity. mitary reserves the right to treat an Acceptance Form as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not duly a unied by a valid power of attorney where required.

scen will be sent to or by IDR-Holders (or their agents) at the risk of such persons.

If New Shares are not taken up under the Rights Issue, Flemings, as agent for the Company, will (subject to certain exceptions) instruct its agents to epdeavour to proce that 3.00 p.m. (London time) on 9th October, 1996, subscribers for such New Shares if a price at least equal to the aggregam of the issue price of the New Shares if a price at least equal to the aggregam of the issue price of the New Shares it as price at least equal to the aggregam of the issue of the fisue and the appears of processing subscribers (including any value added as thereon) can be obtained. Any not proceed (after deduction of the issue of the fisue and such expenses) will be paid by the Company (without interest) to those who have not taken up their cutificments to New Shares.

Any such not proceeds received by the Depositury or its nominee under the Rights I spic shall be allocated (without insuret) pre ones to those IDR-Belders who have, or to the capture of the Rights of the received the Rights of the Rights of the Rights have a manher of IDRs which is not dividible by three, who therefore exament antique the Rights officer to the full extent of their proportioner interest in the Company's share capital (to the extent that they are thus unable to accept the Rights officer).

Payment of an IDR-Holder's emittlement (if any) to such not proceeds will be made against surrender of Componity) No. 10 at the specified office of an Agent (see the floot of Payment of an IDR-Holder's entitles: (his Notice).

Save as described in the following paragraph, new IDRs are expected to be insued and despatched by post on, or soon after, 8th Outober, 1996 at the cisk of the partied to them. New IDRs will be sent to an IDR-Holder at the address indicated on the Acceptance Form submitted by bins. Any new IDRs issued pursuant to the Rights Offer to Euroclear or Codel will be represented, initially, by a temporary global IDB which will be eather a necondamon with its terms.

The offer of new IDRs pursuant to the Rights Offer to persons who are resident in, or citizens of, commiss outside t of by the law of the relevant jurisdictions. Such persons should commit their professional advisors us to whether the we any other formalistics to mable them to accept the Rights Offer. This Notice does not constitute an invitation or offer to such an IDR-Holder states, is the reign out contravention of any regulation or other legal requirements.

The Company is not and will not be registered under the United States Investment Company Act of 1940, and the new IDRs have not been and will not be the United States Securities Act of 1943, as suscended (the "Securities Act"), or ander the securities legislation of any province or territory of Canada. None of officered, sold, taken up or delivened within the United States or Canada accept in certain transactions occupy from the registration requirements of the Accordingly, subject to terrain exceptions, the Rights Office is not being made in the United States or Canada accept in the United States or Canada.

Until 40 days after the commencement of the Rights Large may offer, sale or transfer of any new IDRs within the United States by any dealer (with Rights Large) may violate the registration requirements of the Securities Act.

Dated 18th September, 1996

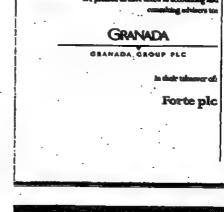
None of the new IDRs may be offered or sold, directly or indirectly, or offered or sold in the Republic or to any person for re-offering or re-only, the first of the Republic or to any person for re-offering or re-only. Sent of the Republic (as that term is used for the purposes of the Foreign Eachange Management Act of Korea) encays personal to applicable Kore

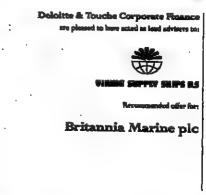
IDS.-Holders suddent in other oversens territories should consult their professio erve any other formalities to enable them to take up their entitlement.

ACENTS 60 Victoria Embankment Landon EC4Y 0JP

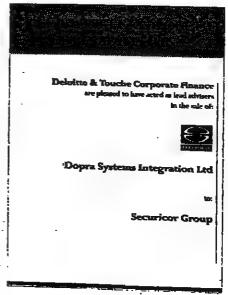
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Deloitte & Touche Corporate Finance are pleased to have acted as load advisors to GRANADA GRANADA, GROUP PLC E SEPTE SUPLES



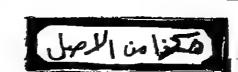


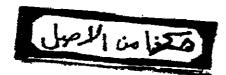






For further information contact John Connolly or Ian Jamieson on 0171 936 3000.





A Super-Newson

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Assessment of the second

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WARRE STATE OF PERSONS

Prince is believed to be insisting on steep terms. His last Warner deal not only gave him large advances and high royalties, but made him a vice-president of the company and required Warner to invest \$25m in setting up Paisley Park, his "vanity" record label. Warner has had consider-

able success with other vanity labels - Madonna's Maverick label signed Alanis Morrisette, the Canadian singer who has since sold more than 17m copies of her debni album worldwide. Paisley Park's sales, however, have proved disappointing.

The chief challenge for the record companies now in talks with Prince is to gauge whether he can return to his old superstar status.

COMPANIES AND FINANCE: THE AMERICAS

Canada probes small companies' financing

By Bernard Simon in Toronto

Canada's securities industry has launched an investigation into conflicts of interest surrounding the financing of small companies

The inquiry, under the auspices of the Investment Dealers Association, comes amid rising concern about the role of underwriters, research analysts and retail brokers in supporting the

Prince to

negotiate

contract

By Alice Rewethorn

recording contract,

new record

Prince, one of the best-

selling pop stars of the

1980s, has started talks with

a number of the world's

largest record companies

hoping to clinch a new

mental singer recently

ended a 19-year association

with Warner Music, part of

Time Warner, the US enter-

tainment group, after a

series of rows culminating

in his changing his name to

an unpronounceable symbol

and appearing in public

Last month, Prince deliv-

ered the last of the six

albums under his Warner

contract, which was one of

the most lucrative in the

music industry when it was

He has since been free to

negotiate with other compa-

nies and is understood to

have approached several

over the summer, including

EMI, Sony, PolyGram, BMG

Sales of Prince's records have fallen significantly since his beyday in the

1980s, when he was one of the world's most commer-

cially successful pop per-

formers. His recent albums

regarded as an extremely talented figure and it is rare

for an artist of his calibre to

are believed to have

expressed interest in signing "Of course we are inter-

ested in Prince," one senior music executive said. "He is an incredible talent, who would bring tremendous

kudos to any label. And he is still a big name, which is always worth money in a

The critical question for

particularly as Warner is entitled to hold on to his

potentially lucrative back

He has started negotia-

tions when pop stars are

commanding increasingly

companies, as illustrated by

the \$80m, five-album deal

that the group R.E.M.

signed with Warner last

for at least three years.

high-risk business."

Most of the large labels

come on to the market.

have generated week sales. However, Prince is still

and MCA, but not Warner.

signed in 1992.

with "Slave" on his cheek.

The notoriously tempera-

energy issues that are a feature of Canada's resourcebased markets.

These issues make up a substantial portion of some securities firms' business and enjoy a significant folpean investors.

holders.

In at least one instance, an

The most publicised case involved Alberta-based Carlowing among US and Euro- taway Resources, whose Several cases have C\$26 earlier this year on surfaced recently in which hopes that its exploration securities industry employees involved in raising funds tained a rich nickel deposit.

speculative mining and out also to be sizeable share- than C\$2 after disappointing panel, a third of whom are cers of small companies. Its arill results.

> employee sold his shares revealed that employees at shortly before the company's First Marathon Securities, provincial securities com-share price crashed. one of the most active underwriters of speculative exchanges by the end of the resource issues, at one time built up a 46 per cent stake shares soared to a peak of in Cartaway. Questions have also been raised about the timing and disclosure of their transactions.

The inquiry will be con-

from outside the securities It was subsequently industry. It is expected to make recommendations to

> Mr Ian Russell, vice-president of the investment Dealers Association, said the inquiry will review rules on securities firm employees acting as promoters, share-

attractions go beyond its

bold growth strategy. He

also credits PCS with being a

leader in mining technology,

tax planning and marketing.
Mr Pattison predicts that

PCS's earnings, which

reached \$160m, or \$8.68 a

share, in 1995 will grow by

an average of 50 per cent a

year for the next five years. He forecasts 1997 earnings at

\$8 a share, up from \$6 this

so steep. PCS's share price,

which has more than qua-

drupled in the past three

years, lost ground after news

of the Arcadian bid. The

C\$101.25 in Toronto early

this week, down from their

Nitrogen producers gener-

ally trade at lower

price-earnings multiples

than suppliers of other fertil-

iser raw materials. While

potash and phosphates are

mined, nitrogen is manufac-

C\$110.88 peak.

shares were trading at

thers wonder, how-

ever, whether the

curve will be quite

mandate also covers "client preference" rules, involving the distribution of public offerings and private placements

Opinions are divided within the securities industry itself on the best course

At a minimum, the panel is expected to recommend tightening disclosure rules. which at present fall well

Fertiliser prices have tra-

ditionally been volatile. But

PCS and its fans contend

that the company can only benefit in the long run, as

rising living standards lift

demand for food and

improve crop quality in rap-

idly developing countries

In PCS's last annual

report. Mr Childers said the

company believed there would be continued growth

in fertiliser consumption.

"That growth may not be

steady, but the trend line

will definitely be up," he

Even the \$600m of extra debt required to finance the

Kali und Salz and Arcadian

acquisitions have raised few

concerns in the investment

between \$1.3bn and \$1.4bn,

or 42 per cent of capital. But

Mr Pattison expects PCS will

be able to repay the extra

Bernard Simon

borrowings within three

Total debt will rise to

such as China and India.

cent. Another 42 per cent of the shares are in institutional hands. Loewen's share price soared by C\$7.90 in Toronto

to C\$54.40 shortly before yesterday's close. Both companies have grown rapidly by buying out small family funeral parlours in the US and Canada. More recently, SCI has turned its attention overseas with sizeable acquisitions in the UK and France. SCI said competition issues could be settled through selected divestitures without impairing the value of the merged

ADM boardroom shake-up

AMERICAS NEWS DIGEST

SCI in \$2.5bn

bid for Loewen

Houston-based Service Corporation International, North

America's biggest funeral operator, has made a US\$2.5bn all-share offer for its main rival, Vancouver's Loewen

surprise overture yesterday, saying that its board would

review the offer and respond "in due course". SCI's bid,

premium above Loewen's price prior to yesterday's offer,

executive, is the biggest single shareholder, with 15 per

equivalent to US\$43 a share, represents a 27 per cent

Mr Ray Loewen, the company's founder and chief

Group. Loewen gave a non-committal reply to SCI's

Archer Daniels Midland said two long-time directors will step down next month, leading the way to further governance reforms at the Illinois-based agribusiness group. The troubled company has been under fire for more than a year because its executive committee and 17-member board is dominated by family members and close personal friends of Mr Dwayne Andreas, chairman

At its annual meeting on October 17, ADM will implement several board reforms, including cutting the number of directors to 12 and setting a maximum age of 70 for directors. Overall, eight existing directors will retire from the board, and three new directors will be added. Directors leaving the board include Mr Michael Andreas, the son of the chairman, who had long been expected to succeed his father.

In a preliminary proxy statement, the company said that Mr Ralph Bruce and Mr John Daniels, both on the executive committee, will also leave the board. Mr Andreas's tight control of the board has been blamed for the company's slow response to shareholders in the wake of the price-fixing scandal that has plagued ADM's fastest-growing division - bioproducts - since 1995.

ADM recently agreed to pay \$25m to settle civil complaints by customers over price-fixing for the feed ingredient lysins. ADM is one of the world's largest lysins producers. Three of its rivals in the lysine business, all Asian companies, agreed in August to pay more than \$20m in criminal fines to the US government in response to charges of international price fixing for lysine, and are now co-operating with the government criminal investigation. Lawyers say that the government is negotiating with ADM to reach a settlement in a similar criminal case, although neither the company nor government attorneys would comment on the matter.

Pegasus offer for Dayton

Pegasus, a medium-sized Canadian-based gold producer, has offered more than C\$500m (US\$365m) in a share exchange for Dayton Mining, owner of the new Andacollo gold mine in Chile. Pegasus operates five small US gold mines and another in Australia, with operations based in Spokane, Washington. The Andacollo mine would lower Pegasus's overall production cost structure significantly.

The offer is 0.75 of a Pegasus share for each Dayton share. It is backed by Dayton's management which together owns 20 per cent of the 45m shares outstanding. The Pegasus offer, based on market valuations last Friday, is worth nearly C\$12 a Dayton share, or a has been retained to advise Dayton.

for a junior company turned. The shares tumbled to less ducted by a 12-member holders, directors and offi-short of US standards. Growing big in the business of growth

Potash Corporation's acquisitions have won admiration and quadrupled sales

Brunswick and Utah, and

almost half of estimated

reserves. The Saskatchewan

mines, sitting atop a rich

belt of potash almost

1,000km long and 160km

wide, are among the lowest

The expansion into phos-

phates, starting with the April 1995 acquisition of North Carolina-based Texas-

gulf, has given PCS an 8 per

cent share of world produc-

tion and 7 per cent of capac-

ity. According to Mr Child-

cost producers.

of adulation in an industry not renowned for glamour. The fertiliser producer.

based in the heart of the Canadian prairies, has won admiration for a series of bold acquisitions that have more than quadrupled its sales since the Saskatchewan provincial government privatised it in 1989. Furthermore, the expansion has taken place without financial or management strains.

The two latest purchases one in Europe, the other in the US - will almost treble its size again, bringing fray. annual sales to about Mr US\$4bn. They will give PCS control of about half of world trade in potash (the common name for potassium chloride), as well as extending its interests from two of the main plant nutrients, potassium and phosphates.

to the third, nitrogen. The company has offered

to buy 51 per cent of Kali und Salz, which has a virtual monopoly on the German potash market, as well as a significant export busi-

Potasti Corporation of Seskatchewen

Potash Corporation of ness. The addition of K&S about 22 per cent of world at Deutsche Morgan Grenfell gen market is seen to be Saskatchewan has is also expected to increase potash capacity from mines in New York, says PCS's more vulnerable to excess generated a rare level PCS's bargaining power with in Saskatchewan, New attractions go beyond its property. China, the world's biggest fertiliser importer. K & S had a total market value of about DM1bn (\$662m) when the proposed deal was revealed last month.

The move into nitrogen would result from a friendly US\$1.2bn offer for Tenne see based Arcadian Corp, the biggest nitrogen producer in the western hemisphere. PCS beat a bid by Freeport McMoran, the New Orleansbased mining and fertiliser group, which indicated that it would not return to the

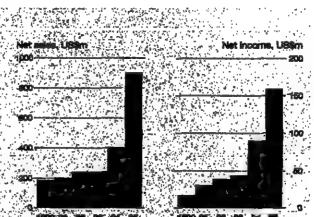
Mr Charles Childers, PCS's chief executive for the past nine years, said the Arcadian deal was "not dependent on synergies". "We did it because this company is attractive to our shareholders by itself," he added. One attraction is that 40

per cent of Arcadian's products, which include urea. nitric acid and ammonium nitrata, go to industrial customers rather than the fertil-

PCS already controls

ers, if the company was going to grow, it had to move into something else. We've gone from being a major potash producer to being a major fertiliser producer," he explained. It would be surprising, however, if the addition of a third leg did not strengthen PCS's two other busines Mr Childers says that when PCS entered the phosphates business last year, some Texasgulf customers switched

their potash business to



Fertiliser industry recovers as the world's diet changes

the record companies is how much Prince is worth, demand and prices for leadcatalogue of past releases ing fertiliser components rising as world grain stocks shrink and diets in developing nations shift to grainintensive proteins such as generous terms from record beef, pork and poultry.

Grain prices tend to drive fertiliser demand, with high prices for harvested crops giving farmers an incentive to add more soil nutrients and expand plantings. Maize prices reached their highest level in a decade this summer as the world's grain surplus fell to 25-year lows, sparking a surge in fertiliser

This season's US harvest will be larger than last soil productivity: potassium, year's, but not enough to rebuild global foodstocks. Forecasters now say that grain prices may stay near historic highs for another two years, and that fertiliser prices should follow suit. Although the miracle fertilisers produced in the

"green revolution" of the 1960s are unlikely to be duplicated, more and smarter use of soil nutrients feeding the expanding diets of China and other fast- ents, phosphate rock is the

he global fertiliser developing Asian nations.

This is good news for the global fertiliser industry. which has been battered by two decades of over-supply, weak markets and practices aimed more at maintaining market share than generat-

"Most of the good-old-boy style managers have been replaced by real businessmen at the major companies." says Mr Doug Groh, a chemicals industry analyst for Merrill Lynch.

While there were nearly 100 fertiliser producers in North America 20 years ago, just a handful now dominates the extraction and processing of the three main nutrients needed to boost phosphorus, and nitrogen. Two mineral giants, Potash Corp of Saskatchewan and Chicago-based IMC Global, compete for dominance in both potash (mined to produce potassium) and phosphates (mined to produce phosphorus). Both have formed partnerships or executed mergers in the past few years that have allowed them to diversify into nitrois expected to be central to gen-based fertilisers as well. Of the three main nutri-

one in tightest supply, with the US controlling the single largest share (30 per cent) of world production. IMC Global, in a joint venture with natural resource company Freeport McMoRan, accounts for 42 per cent of US phosphate rock production, followed by Potash Corp and the privately-

owned Cargill. IMC-Agrico, the three-yearold parinership between IMC and Freeport, is credited with taming fractious competition between smaller phosphate producers in Florida, where much of the US

"Very responsible supply management practices by IMC-Agrico and the inevitable return of export demand have helped to drive [phosphate] inventory levels down," wrote Mr David Nelson, fertiliser analyst for NatWest Securities in recent report on the fertiliser industry. Phosphate rock supplies are expected to tighten considerably within 10 years, and NatWest estimates replacement costs of at least \$40 a ton, double the current price.

Laurie Morse

Bank of Cyprus Capital Raising Program

The Bank of Cyprus Group announces today its proposed capital raising program.

In this context, the Boards of Directors of Bank of Cyprus (Holdings) and Bank of Cyprus, wish to announce today, subject to approval by the shareholders of the Group to be requested at an Extraordinary General Meeting which is planned to take place on 2.10.96 at the Bank of Cyprus Group Head Quarters, that the Group proposes to proceed with an offering of up to CY50 million Subordinated Convertible Bonds to be issued by Bank of Cyprus.

These securities will be convertible at the option of the holder into ordinary shares of Bank of Cyprus (Holdings), at a conversion price which will be in excess of the share price at the time of the proposed offering.

The proposed offering will be directed primarily (CY35 million-CY40 million) to international investors, reserving at least CY10 million of securities to be offered to local investors, with priority to be given to existing

It is also the intention of the Group to make a CY25 million rights issue on or after the 1st May 1997 and for this purpose a resolution will be placed before the Bank of Cyprus (Holdings) Board, in due course.

The proceeds of the capital raising program will be used to strengthen the Group's capital adequacy ratios and to underpin the development of the

Salomon Brothers International Limited will act as Lead Manager of the International tranche of the proposed offering, for which a small syndicate will be formed. The Cyprus Investment and Securities Corporation Ltd ('CISCO'), a wholly owned subsidiary of the Group, will act as Advisor to the Bank as issuer.

The terms and timing of the proposed Convertible Bond offering will reflect market conditions, and details will be announced in the near future. This is the first time that an international bond in Cyprus pounds will be issued by a Cypriot issuer. Upon conversion of the Bonds, the shareholder base of the Group will be broadened with the participation of international investors in a range of 7%-9%.

The proposed Convertible Bonds will be listed on the Luxembourg Stock Exchange and will be the first Cypriot financial instrument to be listed on a European Stock Exchange.

3DO looks to shed hardware side

By Louise Kehoe In San Francisco

3DO, the struggling US video game machine and software company, plans to sell its hardware business or move it into a joint venture, the company announced.

About 150 people, onethird of the company's workforce, will lose their jobs in the restructuring 300 will now concentrate on software, the company said, with a new focus on games to be played on the Internet. The Internet, and internet entertainment in particu-

lar, is a huge opportunity."

said Mr Trip Hawkins, chair-

man and chief executive. The restructuring represents an about-face for SDO,

which had attempted to create a new type of video game machine with better graphics and sound. The 3DO machines, however, turned out to be much more expensive than competing systems from market leaders Sega

and Nintendo. Last year, Toshiba and Goldstar cancelled plans for new 3DO machines, while Matsushita Electric, a 300 shareholder, agreed to pay \$100m for the rights to the generation of next

jects, while spending less capital, making better products, and getting into position for Internet-driven growth." Mr Hugh Martin, 3DO president, said. Mr Charlie Christ, vice-president and general manager of Digital Equipment's components busine

is to be chairman of Alta Vista, Digital's fast-growing Internet search and software business, when the unit is floated later this year, Paul Taylor writes.

Alta Vista, which provides users with a powerful Inter-"Now we can concentrate net search facility, has ware business.

entertainment software pro-

on our most compelling grown quickly since it was set up earlier this year in competition with other Internet search companies such as Yahoo! and Lycos. Mr Christ, speaking at the

International Data Corpora tion IT Forum in Paris, said Digital had decided to float the company to maximise shareholder value, and had decided against a trade sale because "Alta Vista needs to be independent in order to move quickly".

The Digital executive said the company was "not just a search engine company" and that he expected its valuation to also reflect its soft-

RAND MINES LIMITED

Notice of a general meeting

Notice is hereby given that a general meeting of the shareholders of the Company will be held at 09:00 South African time on Friday, 11 October 1996 in the Main Committee Room, The Wanderers Club, 21 North Street, Illovo. Johannesburg, South Africa, for the purpose of considering and, if deemed fit, passing, with or without modification, the special and ordinary resolutions set out below.

The conditions precedent to the coming into effect of each of the resolutions set out in this notice are that:

- (i) each of the resolutions contained in this notice will have
- (ii) the Supreme Court of South Africa (Witwatersrand Local Division) ("the Court") will have confirmed the reduction of the Company's share capital in terms of section 84 of the South African Companies Act, 1973 ("the Act") and will have cranted an Order to this effect; and
- (iii) the South African Registrar of Companies will have registered the Order of Court referred to in (ii) above as well as all of the special resolutions which are passed at the general meeting.

Special Resolution number 1

- "I. Resolved as a special resolution that, subject to the fulfilment of the conditions precedent stipulated in the notice convening the general meeting at which this special resolution will be proposed, with effect from Monday, 18 November 1996 the share capital of the Company be reduced in terms of section 84 of the Companies Act, 1973
 - 1.1 The authorised share capital of the Company of R20 000 100,00 divided into 80 000 000 ordinary shares of 25 cents each and 10 000 variable rate cumulative redeemable preference shares of 1 cent each be reduced to R16 000 100.00 divided into 80 000 000 ordinary shares of 20 cents each and 10 000 variable rate cumulative redeemable preference shares of 1 cent each by the reduction by 5 cents of the nominal value of each of the ordinary shares of the Company.
 - 1.2 The issued and paid-up share capital of the Company of R14 910 305.00 divided into 59 641 220 ordinary shares of 25 cents each be reduced to R11 928 244,00 divided into 59 841 220 ordinary shares of 20 cents each by the distribution of 16 103 129 ordinary shares of 20 cents each owned by the Company in Ingwe Coal Corporation Limited (Recistration No. 01/01358/06) ("the Ingwe shares") to the Company's shareholders in the ratio which will result in each shareholder receiving 27 Ingwe shares for every 100 shares, in registered or bearer form, held in the Company on Friday, 15 November 1996 ("the unbundling registration date"), provided that:
 - (a) should a shareholder become entitled to a fraction of an ingwe share, then, in lieu of that fraction, the shareholder will receive cash equal to the shareholder's proportionate share of the proceeds (net of costs) derived from the sale, at marketrelated prices, of the aggregated fractional entitiements to ingwe shares of all shareholders;

(b) if a shareholder which the directors determine in

their sole and absolute discretion is a company are registered in its name at the unbundling registration date as a nominee for other persons ("beneficial owners") as part of its normal business ("the nominee company"), has lodged. with the Company's transfer secretaries, by a date specified by the directors, a list certified as correct by a duly authorised director of the nominee company setting out the individual numbers (and not necessarily the names) of the shares in the Company which are registered in the name of the nomines company but which are beneficially owned by the beneficial owners at the unbunding registration date, the entitlements of the nominee company to ingwe shares shall. be determined as if each of those beneficial owners was registered at the unbundling registration date as a shareholder of the Company of the respective numbers of shares in the Company set out in the list ("the beneficial owners' entitlements"), provided that the aggregate of the beneficial owners' emittements (before the application of (a) above, if it is applicable) shall not exceed the entitlement (before the application of (a) above, if it would have been applicable) which would have accrued to the nominee company but for the aforegoing provisions of this sub-paragraph (b). The provisions of this sub-paragraph (b) do not give the beneficial owners any rights of any nature whatsoever against the Company and the rights granted in terms of this sub-paragraph (b) are exercisable solely by the nominee company as the registered shareholder of the Company."

"Resolved as a special resolution that, subject to the fulfilment of the conditions precedent stipulated in the notice convening the general meeting at which this special resolution will be proposed, the Company's memorandum

of association be amended by deleting paragraph 5 and by inserting the following new paragraph 5:

"5. The authorised capital of the Company is R16 000 100.00 divided into 80 000 000 ordinary shares of 20 cents each and 10 000 variable rate cumulative redeemable preference shares of 1 cent each!""

Ordinary Resolution number 1

Resolved as an ordinary resolution that, subject to the passing of Special Resolutions numbers 1 and 2 stipulated in the notice convening the general meeting at which this ordinary resolution. will be proposed, application be made to the Supreme Court of South Africa (Witwatersrand Local Division) for an order in terms of section 84 of the Companies Act, 1973, confirming the reduction of the Company's share capital in terms of Special Resolution number 1 and that any director of the Company be and is hereby authorised to do all things and sign all documents necessary to give effect therein."

Ordinary Resolution number 2

"Resolved as an ordinary resolution that the directors of the Company be and are hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the general meeting at which this resolution will be proposed."

sons for and effects of the special resoluti

Special Resolution number 1 has been proposed to enable the Company to distribute (as an imbundling transaction in terms of section 60 of the South African Income Tax Act, 1993) 16 103 129 of the shares it holds in Ingwe Coal Corporation Limited ("logwe shares") to its shareholders. The purpose of the special eschillen is to reduce, by 5 cents, the nominal value of each of the Company's authorised and issued ordinary shares by distributing those ingwe shares and paying cash in lieu of fractional entitlements to ingwe shares to the Company's shareholders as set out in the special resolution. The effect of the special resolution will be to reduce the Company's authorised. share capital by R4 000 000.00 and its issued share capital by R2

Special Resolution number 2 has been proposed to amend peragraph 5 of the Company's memorandum of association so as to reflect the reduced authorised share capital of the Company pursuant to Special Resolution number 1 and the special resolution will have that effect.

Voting and prodes

On a show of hands each shareholder present in person or by proxy or represented in terms of section 188 of the Act shall have one vote. On a poll, each shareholder present in person or by proxy or represented in terms of section 188 of the Act shall have one vote for every share held by such shareholder.

Any shareholder entitled to attend and vote at the general meeting is entified to appoint a proxy or proxies to attend, speak and vote in place of such shareholder. A proxy need not be a member of the Company.

A proxy form for use by shareholders is available from the United Kingdom Secretaries. Duly completed proxy forms must be returned to the Company's transfer secretaries. Rand Registrars Limited, Block "C", 100 Northern Parkway, Ormande 2091, Johannesburg (P O Box 82549, Southdale, 2135) in South Africa or The Royal Bank of Scotland ple Securities Services - Registrars, P O Box 82, Caxton House, Redcliffe Way, Bristol, BS99 7NH, in the United Kingdom, to be received by them by not later than 09:00 (South African time) on Wednesday, 9 October 1996.

A holder of a share warrant to bearer who desires to attend or be represented at the general meeting must produce his share warrant or certificate of his holding from a banker or other approved person at the bearer reception office of the United Kingdom registrars, transfer and paying agents, The Royal Bank of Scotland pic - Registrate Department, First Floor, 5-10 Great Tower Street, London, EC3R SER, or he must produce his share warrant at the office of the French agents, Berciaya Bank PLC, Guichet Times, 21 rue Leffitte, 75009 Paris, in both cases at least five clear normal business days before the date appointed for the holding of the general meeting, and shall otherwise comply with the conditions governing share warrants currently in lords. Thereupon, a proxy or an attendance form under which such a share warrant holder may be represented at the general meeting will be issued to such holder.

By croise of the board R L Brackbaw

Tohamesburg 18 September 1996

United Kingdom cretazies

Viaduct Corporate Service 19 Charterhouse Stone London ECIN 6QP

Registered office 5 Handel Road Ormande, 2091 Johannesburg, South Africa. (P O Box 78861, Sandton, 2146, South Africa)

Note: A circular to members is being posted to registered shareholders and copies are available for holders of share warrants to bearer from the United Kingdom Secretaries and Barclays Bank PLC, Paris.

Mediobanca International Limited Incorporated with limited liability in the Cayman Islands) A member of the Mediobanca Group

Notice to holders of Mediobanca International 4 per cent. Notes due 1999 convertible into ordinary shares of Alleanza Assicurazioni S.p.A. (the «Notes»)

Change in Basis for Conversion

Notice is hereby given that as a result of a bonus issue of shares in Alleanza Assicurazioni S.p.A. (the «Company») authorised by a resolution adopted by an Extraordinary General Meeting of the Company held on 24th June 1996 and to be effected as from 23rd September 1996, pursuant to condition 5 of the Terms and Conditions of the Notes, the basis for conversion of the Notes (which was originally one ordinary share in the Company for every Note held) has been changed to 1.1 ordinary shares (the "Shares") in the Company for every Note held. Where upon exercising their subscription rights, Noteholders become entitied to receive other than a whole number of shares, they shall pursuant to the said Condition 5 receive the nearest whole number of Shares and shall be refunded the cash equivalent of the outstanding fraction based on the arithmetic mean of the official market price of the Company's ordinary shares as recorded in the calendar month preceding that in which the application for redemption and subscription was made.



The Royal Bank of Scotland Group pic

US \$400,000,000 UNDATED FLOATING RATE PRIMARY CAPITAL NOTES

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from 18th September 1996 to 18th March 1997, the Notes will bear a Rate of Interest of 10.15220 per cent per annum.

> AGENT BANK: Charterhouse Bank Limited



COMPANIES AND FINANCE: UK

Tesco stays. ahead of rivals

By Christopher Price

Tesco consolidated its position as the UK's most popular supermarket chain in the first half, as pre-tax profits rose 12 per cent and like-for-like sales accelerated in the second half.

The group said its market share was up from 13 to 14 per cent, leaving J Sainsbury on about 12.5 per cent. Asda and Safeway are estimated to have about 8 per cent each.

promotion campaigns, the latest of which has prompted fears of a renewed price war.

However, the company said profits were some £20m. below expectations due to a price war at the petrol pumps. As a result, the rise in operating profits was limited to 6 per cent at £329m, with gross margins declining by 0.4 per cent.

Sir Ian MacLaurin, chairman, said the group's strategy of combining initiatives on price, customer service, product quality, new store formats and financial services had served it well. "We have to be competitive on all fronts."

Sales in Europe rose 41 per cent to £396m, with operat-ing profits in the region increasing 37 per cent to 25.9m. The figures included a £35m contribution from the 17 Czech Republic stores bought from Kmart for 279m in April

Sir Ian said the group would concentrate on organic growth on the contiment, although it would continue to examine any acquisition opportunities. He admitted Tesco had considered bidding for Docks de France, the private French retailer, but had been dis-couraged by the price and the lack of a French partner. with neutral cash flow.

P&O forecasts storms

By Geoff Dyer

P&O, attempted to force the pace of rationalisation in the cross-Channel ferry market vesterday, saying that a solution to the industry's acute overcapacity problem had to be reached quickly if

it was to recover next year.

His comments prompted

speculation that P&O, the transport, construction and property group, would agree a reduction in capacity on the Channel with its main ferry rivals by the end of this year. P&O took the first step in this process yesterday when it took full control of North Sea Ferries (NSF) by buying Royal Nedlloyd's 50 per cent stake in the joint

venture for £25.25m. Tesco also promised to continue its aggressive price Closure Pre-tax profits for the 24 weeks to August 10 rose charges from £290m to £326m, on turnover up 14 per cent to

By Ross Tiemen

Pre-tax profits at Sears, Britain's biggest speciality retailer, slumped to just £2.5m (\$3.9m) from £30m on sales of £908m during the

The figure was struck after widely-expected net provisions of £25m for the closure of 379 shoe stores returned to Sears after the collapse of Facia Group, which had earlier taken them off its hands.

But it also reflected a mixed performance from Sears' own portfolio of stores. Although sales from ongoing businesses increased 7.9 per cent to £843m, profits before tax and exceptional charges rose just 3.7 per cent to

store on Oxford Street in London, star of the company's portfolio, continued its unrelenting progress, with trading profits ahead 22 per cent to £13.4m on sales up 12.5 per cent at £131m. Net debt rose from 28.8m

Lord Sterling, chairman of P&O announced that profits from its ferry operations had all but disappeared in the first half of this year, drop-

ping from £24.8m to £500,000. Facing intense competition from Eurotunnel, car volumes on P&O's Dover-Calais ferries fell 16 per cent and the group also made losses on the western Chan-

In July the government dropped restrictions which prevented the ferry compa-nies working together. Lord Sterling said he had held preliminary discussions with all P&O's competitors, which include Stena Line and Hoverspeed. "People have got to get a move on if we are to tainer lines in the world. take advantage of the 1997

The need for prompt [summer] season," he said, action was underlined when as regulatory approval of any deal would take at least

three months. The potential cost savings from any rationalisation would be "dramatic" as rach ship cost £15m-£20m and there was huge overlap on reservations, marketing and

advertising. A full-scale merger between P&O and a rival would be unlikely to be approved, he said. His preferred structure was a joint

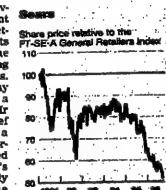
venture.
This would follow the pattern of the deal P&O announced last week to combine its container shipping operations with Nedlioyd, to create one of the largest con-

LEX COMMENT Sears

For once Sears has delivered the City a pleasant surprise: Yesterday's better than expected results put analysts in the unusual position of having to upgrade their forecasts. But it is too early to say whether this is simply a stay of execution for Mr Liam Strong, the chief executive, or marks a

more enduring turn in fortune for the troubled retailer. Mr Strong's approach so far is largely uncontroversial. The group was out of control. Focusing on four main sec-

The Selfridges department



tors and cutting brands to 10 from 24, were necessary initiatives. Steps have been taken to cut costs and the investment in logistics should improve stock management in the troubled shoe division.

Stabilising the group's performance is no small achievement, but it has taken time. The price may be that, even if the current strategy proves conceptually correct, it may fall into place just as the economy turns down.

There is a further concern. If Sears is really to shift through the gears, management will have to show that it knows how to expand sales. A smooth running engine is a necessary, but not suffi-

cient, condition for success. In retail, the body-work must also shine. Further investment in the strong Selfridges brand is promising, but Sears has still to show it has the merchandising skills necessary to pull customers into its

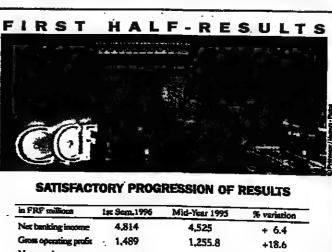
Yesterday marked the end of the beginning. Mr Strong's future will depend on what follows.

RESULTS

								- Dividends		
	Turnover (· (m)	,Pro-Ess; profit (Sur)		PG (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total in
Alassan Recreate # Year to June 30		i.82)· · 0.3	(100.00)	3.6	(1.8L)	pil		mili	ŋk	nii
Abbott Moad	169 (137) 4	7 (3.49)	7.95†	(6.06)	3.25	Oct. 25	2.75	-	9
Acorn Compoter 8 miles to June 30		9.4) 3.32L		3.7L	(9.9L)	198	•	nli		200
Asda Property 6 mths to June 30		1.6) 5.		3.3	25)	0.85	Nov 1	0.8	-	2.5
Luto Precision 6 mins to June 30		1.1) 2.		4.5	(4.8)	1.7	Del: 31	1.7	_	5
Frent Inti 6 mths to June 30		1.4) 5.28		4.2	0.6	· 'i'	Nov 25	0.6	_	ž
BSG leti 6 mits to June 30						0.77	Dec 31	0.7		3.2
					(3.09)		Oct 25	2.3	•	6.9
SSM Group 6 mths to June 28				7.5	(6.3)	2.53			•	
surnfield 6 mths to June 30		2.4) 1.1		24	(4.1)	1.3	Oct 18	1.3	-	3.3
anning (W) 5 miles to June 30		7.8) 4.4		9.9	(8,3)	8.4	Dec 2	3.2	•	B
assell 6 mths to June 30		B.B) 0.64L		9.1L	(9L)	1.5	Oct 21	1.5	-	4.5
farement Carments () mile to June 29		78) 2.6		3.3	(8.5)	4.02	Jan 2	4.4	-	0.65
Sinical Comp 6 miles to June 30	1.24 . (0	.92) 0.572	AL (0.357L)	5.4L	(2.2L)	ηä	-	17	reli	178
MG 6 mits to June 30	117 (9	4.8) 11,3	4 (8.64)	11.4†	(8.8)	2	Nov 20	-	-	-
BC 6 mths to June 30	24.8	28 1 0.39	4 (0.371)	2.27	(2.09)	1	Oct. 18	1	-	2.25
eiden Vale 🖣 6 miths to June 30	289	283) 4.05	(8)	1.98	(4.3)	0.86	Oct 16	0.88	-	2.2
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erome (S)		4.5) 0.61		4.7	(4.1)	17	Nov 14	0.75		2.25
ourdan (Thomas) 8 mths to June 30		0.5 0.33L		1.8	(i.1L)	0.5	Jan 7	0.5		1.25
				5.79					•	
atthews (8) 28 wks to July 14					(4.74)	1.7	Oct 25	1.29	•	3.39
ayborn 6 miles to June 30		1.8) 2.6		8.6	(8.6)	2.5	Nov 1	2.25	-	7.2
eggitt6 miles to June 30		66) 11.87		3.7	(2.2)	1:36	Dec 6	1.3	-	3.93
eristeen 6 mths to June 30		(1) 12		4.5	(3.5)	0.7	Oct 29	0.0	-	1.8
ark Estates 🗷 6 miles to June 30		1.7) 0.25		7.04	(7.08)	3	Oct 4	-	-	-
6.0		080 } 184,7		10.7	(14.1)	19.6	Nov 15	13.5	- '	30.5
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&U 6 mths to July 31	28.3 (2	9.4) 3.0	2.75	16.93	(15.08)	4	Nov 12	3.5	-	16
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ater Helf 6 mins to June 30		36 0.129	4-1-17	0.021	(0.01)	ηĪ.		Lil	17.H	· nii
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ETTE NATER OF LONDON AMERICAN GROWTH TRUST PLC



Not carnings 615,6 + 8.7 Charles de Croisset stated :

"These results are very satisfying. They indicate the return to growth of the net banking income and a considerable improvement in profitability". For further informacion contact Investor Relazions : (33.1) 40 70 22 56

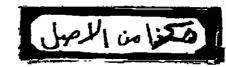
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DISCRETION AND EFFICIENCY IN A MAJOR BANK



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COMPANIES AND FINANCE: UK

Roxboro shares slump 25% as destocking prompts downgrade

By Jane Martinson

Shares in Roxboro dropped 25 per cent yesterday, as the specialist electronics group warned weak demand for components would depress this year's profits. .

At the same time, the group revealed a fall in interim pre-tax profits from £8.16m (\$12.7m) to £8m, following start-up costs and manufacturing difficulties.

The warning that secondhalf profits would be about £8m prompted analysts to cut full-year forecasts by \$2m to £16m, the same as 1995. The shares fell 80%p to 232%p, their lowest for more than a year.

194 × 11

44.342

Mr Harry Tee, group chief executive, said the worldwide slump in demand for electronic components had led to a "significant, sharp decline" in orders and sales in July and August. He said the downturn in a division which contributes about half of group sales resulted from a "massive destocking" in an industry which "went crezy"

"I think to some extent this is a correction in the marketplace. There is nothing structurally wrong, we have not lost market share

Acquisitions helped lift six months to June 30. Oper-



interim sales 20 per cent ating profits rose 3 per cent from £45.8m to £55.1m in the from £8.08m to £8.8m.

costs of £1m associated with bus lights. After further charges in the second half. Roxboro said the division should begin to break even at the beginning of 1997.

Manufacturing proble in two companies also hit profits, xconnected with a number of new products last year, and central costs increased by about £200,000 to £1.6m, after introduction of a long-term incentive plan for senior management.

A number of acquisitions last year led to net debt of £7.8m, representing gearing

Phoenix Inns pays £250m for Spring

Phoenix Inns, backed by Nomura, the Japanese investment bank, is to become one of the largest pub chains in the UK with the £250m (\$890m) purchase of Spring hms from a consortium of financial institu-

Run by Mr James Turner, one of four executives on secondment from Nomura, the enlarged Phoenix is considering a flotation within two or three years as one way for its backers to realise their investment.

With the acquisition of Spring Inns' 1,406 pubs, Phoenix will have 2,900, giving it a similar size to Inntrepreneur Pub Company.

Spring Inne will give Phoenix greater purchasing power and make it a better proposition for Nomura's investors," one analyst said. The deal is the latest in a flurry in recent years which have swong pub ownership

Nomura is offering financial advice to the co but Phoenix will fund the purchase with debt from other sources, Mr Turner

away from brewers and into the hands of independent.

Throgmorton sells stake in Framlington

By Roger Taylor

Throgmorton, the £360n (\$562m) investment trust, has sold its 49 per cent holding in Framlington, the UK investment management group, to Munder Capital Management, a US investment management company.

Munder is paying up to £33m for 49 per cent of framlington in a deal which values the company at 2.8 per cent of funds under Framlington manages

funds worth £2.3bn including the Throgmorton Trust. Munder, based in Michigan, said it had been hunting for a UK investment partner for more than three years. With \$36bn under management, it is among seas operations amounted to Group, part of Hanson, the top 75 US investment only £15m out of a total of would take National Power's managers but has very few self-single from the year to March share of sinvestments outside the US. Profits are expected to accel-

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Taylor Woodrow up 81% helped by contracting side

Improved performance from UK contracting helped Taylor Woodrow, the construction and property group, increase pre-tax profits from £14m (\$22m) to £25.4m in the six months to June.

The result included a £2m charge to cover the cost of closing Myton, the group's refurbishment business, after an £8.3m restructuring charge last time.

Taylor Woodrow also said Mr Tony Palmer, chief executive since 1990, would retire next June. Mr Colin Parsons, execu-

tive chairman, said the board would consider internal and external candidates for the post and hoped to name a replacement before full-year announced in March.

Turnover rose from £547m to 2566m, with a decline in contracting off-set by higher housing sales. The group continued to

turn away contracting work which it regards as uneconomic. Construction turnover declined from £320m to £285m as a result, with the bulk of the fall in UK genaral contracting. The construction division

reduced its pre-tax deficit from £10.7m to £1.2m, including Myton closure costs. Mr Parsons said UK construction was on target to break even over the full year, but warned that margins on overseas contracting were under pressure as more companies competed for work.

Housing profits increased from 29.1m to 29.6m on turnover up from £116m to £150m. Mr Parsons said that

UK housebuilding subsidiary, aims to complete 1,300 units this year, an increase of 30 per cent. contrast,

In housebuilding suffered from poor market conditions in Canada and Australia.

The contribution from commercial property was 59.6m (£8.7m), with no material disposals taking place in the period. In March, Taylor Woodrow said it planned to redeploy capital out of property and into housing. Greenham, the group's

building materials supply business, increased pre-tax profits from £3.2m to £3.6m. The interim dividend is

increased by 33 per cent to 1p (0.75p), partly to rebalance the pay-out in favour of the half-year. The shares lost



Colin Parsons warned margins were under pressure as more companies competed for work

NatPower aims to lift rating

By Simon Holberton

National Power, Britain's biggest electricity generator, today begins a campaign to improve its stock market rating at a day-long presentation to 70 institutional investors and analysts.

The company is expected foreign operations and their potential contribution to future earnings.

Pre-tax profits from over-

full scale operation.

National Power can, how-ever, expect tough questioning from analysts who believe it has paid too much for Australian and US generating assets.

Mr Keith Henry, chief executive, signalled in an to highlight the value in its interview yesterday that nies and a high street foreign operations and their National Power will begin to defend its share of the generation market. The sale of 4,000MW of plant to Eastern share of generation below 25

erate as the overseas ventures move from start-up to in the ground at around 23 per cent," he said.

Mr Henry said National take advantage of liberalisation of the electricity supply market due in 1998. It was pursuing a joint venture, which might include regional electricity compa-

The venture would need to have access to 4m-5m customers to be a sensible proposition for National Power. "If not, we will be content to stay in the wholesale market and serve big customers."

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U.S. \$100,000,000

1% per cent. Goarunteed Scools Due 1997

In respect of the captioned Warrants notice is hereby given as follows: In accordance with the resolutions of the Board of Directors of Tasaki of the board of blees of testas. Shinly Co., Ltd. (the "Company") adopted at its meetings hald on 23rd August and 30th August, 1996, the Company shall issue JPY 12,000,000,000 Zero Coupon September, 2000, at an initial conversion price of ¥1,025 per share, on 17th September, 1996. The said conversion price is less than the current market price per share of the

As the result of such issue, the Subscription Prior of the coptioned Worrangs has been changed from ¥1,210.0 to ¥1,168.5, effective on 18th September, 1996, Japan time.

TASAKI SHINJU CO., LITD. By: The Norinchulan Bank as Principal Paying Agent 18th September, 1996



Compagnie Générale des Établissements Michelin

Consolidated results, six months to 30th June 1996

Sales during the first half-year were higher than those of the same period last year and Michelin activity levels were generally satisfactory.

In Europe and North America, tyre sales were depressed by the downturn in original equipment markets. In Asia and South America, markets showed considerable growth and Michelin sales improved strongly.

Sales turnover was FRF34.9 billion, 5.4% up on the first half of 1995. The two principal sources of improvement were increased sales volume and improved sales prices.

Profit on ordinary activities before exceptional items was close to FRF3 billion, almost 50% higher than first

Net profit was FRF1,351 million after charging an exceptional provision of FRF709 million (17.5 billion pesetas) to cover the estimated cost of personnel reorganisation being implemented at the Spanish subsidiary Neumaticos Michelin, S.A., where changes in the size of the workforce have been delayed by the requirements of national

SUMMARY OF THE FINANCIAL RESULTS

Trading profit expressed as a percentage of turnover was 10.4%. It was 31% higher than that for first half 1995, which in itself was up by 26% on the first half of 1994.

The two principal contributors to the improvement in the trading result were sales price levels and cost control.

Revisions of sales prices which were made periodically last year, mainly to recover raw material cost increases, were fully effective in the first half of this year. Average selling prices were 2% up on the first half 1995.

consolidated profit and loss statement FRF million Let half 1995 1st half 1996 Net sales 34,907 Trading profit 3.619 Net financial charges (804) (737)Ordinary profit 1.954 Exceptional profit (loss) and sundry (728)221 Tax on profit (665)(803)1.510 Produ 1,351 of which: Group 1,266

Principal items,

The second factor, reduction of unit production cost, accounted for up to 40% of the increase in the trading result. Actions taken within the framework of the company Plan for cost reductions brought about the improvement.

Cash flow

Net financial charges represented 2.1% of turnover against 2.4% for the first six months of last year. Average debt was unchanged, the drop in financial expenses being attributable to lower rates of interest.

Ordinary profit before exceptional items was FRF2,882 million. The improvement of 928 million compared with the first half 1995 was made up of 861 million increase in trading profit and the balance, from the lower financial charges.

There was an exceptional loss the main component of which was a provision set up by the Spanish subsidiary to cover expenses to be incurred in a reorganisation of the workforce during the next few years.

Cash flow in the first six months of 1996 was FRF4.2 billion, nearly 50% higher than first half 1995.

Consolidated net profit was FRF1,351 million after charging the exceptional loss, which included the provision of 709 million in respect of the personnel reorganisation in Spain.

Before exceptional items, consolidated net profit was FRF790 million higher than in the first six months of last year.

TRENDS AND OUTLOOK

The trends apparent in tyre markets during the first-half of the year are expected to continue. During the summer, business has remained generally buoyant and the position for the year should be satisfactory, showing modest growth in comparison with last year. Cost reductions will continue to make a favourable impact.

For the year 1996 Michelin should, therefore, continue the progress made since 1994.



ISTITUTO PER LA RICOSTRUZIONE INDUSTRIALE (IRI) S.p.A. Seds in Rome 00167 - Vin Vittorio Verumo, 58 Capitale acciale L. 6.369.779.158,000 int. vers. - Trib. di Roma n. 6865/92

INVITATION FOR EXPRESSIONS OF INTEREST IN THE ACQUISITION OF THE SHARE CAPITAL OWNED BY IRI IN SEAT S.p.A., RESULTING FROM THE DEMERGER OF STET, SOCIETA' FINANZIARIA TELEFONICA PER AZIONI

On August 7th, 1995, following the decision of the italian Government, the Board of Directors of IRI approved the start of the sele procedure of STET's SEAT Division and related activities upon completion of the demerger of STET.

On September 13th, 1996, the Board of Directors of STET's approved the commencement of the procedure for the demerger of STET. The demerger project, which will be submitted for the approval of STET's extraordinary shareholders' meeting to be held on October 28th, 1996, includes the Incorporation of SEAT S.p.A., the transfer of the SEAT Division and related activities from STET to SEAT S.p.A., and the pro-related sessignment of the shares of the newly incorporated company to the shareholders of STET.

On September 5th, 1996, IRI's ordinary shareholders' meeting approved the terms of the sale of the share capital owned by IRI in SEAT S.p.A., testifing from the demerger (61.27% of the ordinary shares and 0.93% of the savings shares).

An application for the listing of the SEAT S.p.A. shares on the Italian Stock Exchange will be filed in due course.

While the demerger procedure is in progress and subject to its completion, IRI Intends to receive expressions of interest in the acquisition of the shares of SEAT S.p.A. that will be assigned to IRI as a result of the demerger of STET.

For the purpose of this transaction IRI has appointed Lehman Brothers International (Europe) as its financial advisor (the "Advisor"), interested perfect should direct any enquiry to:

penties should direct any enquiry to:

Atin: Vitorio Pignatti Morano, Managing Direct Plazza del Carmine, 4 - 20121 Milan, Italy Tel.; + 39.2.72158.1 - Fac: + 39.2.72158.250

SEAT S.p.A. will include:

The SEAT Division which publishes the Italian official telephone directories, the Yallow Pages, yearbooks and other specialized business directories for which the SEAT Division sells advertising. In 1995 the SEAT Division recorded total revenues of iti. 1,795 billion and a gross operating margin of 35%; at 1995 year end the SEAT Division employed 1,982 persons;

77.13% of ILTE - Industrie Libraria Tipografice Editrice S.p.A. - which prints telephone directories and yearbooks on behalf of the SEAT Division

and catalogues and magazines for independent publishers;
70% of Multi Media Pubblicità S.p.A., an advertising licensee company for newspapers, magazines, television and local radio networks;
40% of SCS - Comunicazione Integrate S.p.A., an advertising agency;

Other minor equity investments.

This invitation is extended exclusively to limited liability companies with a net worth of not less than III. 50 billion (or Italian Line equivalent) as at

the date of the expression of interest.

In the event that two or more parties acting in concent are interested in the acquisition, their joint expression of interest will be considered.

provided that each of the parties is a limited liability company, at least one of them complies with the above hat worth requirement and they act in

concert se a single potential purchaser.

Parties meeting the above requirements should register their interest in the acquisition by confecting the Advisor in writing or by tax, not leter him October 3rd, 1986, requesting a copy of the information Memorandum on SEAT S.p.A., which will be specifically prepared in connection with

Upon registration,
Upon registration of interest, such perties are requested to send to the Advisor the following documents:
A copy of the articles of sesociation and company by-laws;
A list of all members of the Board of Directors and of the Board of Auditors;
Ansuel reports for the last three years or, for companies established more recently, annual reports for the available years;
A stat of the ten major shareholders with the indication of their respective shareholdings;
A copy of the existing shareholders' agreements, if any;
A current Chancery certificate or a statement of the company's solvency provided by external bodies, and;
Any other information deemed necessary to illustrate the manufacturing, commercial, organizational and financial position of the parties

Any other information deem interested in the acquisition.

In the event that two or more parties acting in concert are interested in the acquisition, the documents attached to the request must refer to each of such parties separate such parties separately.

Where expressions of interest are made by means of intermediaries, such intermediaries are required to disclose the identity of their principal(s)

nd to provide the above-mentioned information in respect of such principal(s).

IFIL at its sole discretion and without any obligation to explain its decisione, reserves the right to make any decision concerning the ommencement of negotiations or any other relationship with any interested parties.

The Advisor will send to the interested parties admitted to the sale procedure a copy of the Confidentiality Letter to be signed and returned to the Advisor. Upon receipt of a duly signed copy of such letter, the Advisor will send a copy of the information Memorandum, a statement of the procedure to follow in order to submit a preliminary offer and a draft of the final sale agreement to those parties which have met the requirements

IRI, at its sole discretion at any time, and without any obligation to explain its decision, reserves the right to withdraw from negotiations with interested parties or to terminate any procedure related to the sale regardless of the status of such negotiations, as well as to modify at any time, whether due to insufficient interest or otherwise, the procedure and method of sale without the exercise of such right giving rise to any claim for compensation or damages whatsoever by the interested parties. Furthermore, such claims may not be made even in the event that the demerger

The publication of this invitation and the receipt of expressions of interest do not impose on IRI any obligations or commitments to sell to the

interested parties, nor do they give rise to any obligation on the part of IRI to any interested party at any time (including the payment of intermediary, advisory or consulting fees). This invitation represents neither a public offer nor a solicitation of public savings under Articles 1 to 18 of Italian Law No. 216 of June 7th, 1974, and subsequent modifications and integrations.

This invitation and the sale procedure are subject to and regulated by Italian taw. For any related controversy the exclusive jurisdiction will be

The shares in SEAT S.p.A. assigned to IFB as a result of the demerger of STET have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold within the United States except pursuant to an exemption from the registration

requirements thereunder. This initiation has been approved by Lehman Brothers Intermedienal (Surope), which is regulated by the Securities and Futures Authority for the purposes of section 57 of the U.K. Financial Services Act of 1988.

The Italian test of this invitation will preveil over that published in any other language.

INTERNATIONAL CAPITAL MARKETS

Europe outperforms US on Emu hopes

and Lisa Bransten in New York

European bond markets outperformed the US yesterday, with expectations that European monetary union will proceed on schedule buoyed by news from the Franco-German summit.

Emu enthusiasm was undermined later in the day by recurrent concern about rising US interest rates. But many European markets remained in positive territory, reflecting what one economist considered the strongest evidence of decoupling seen so far this

■ In Germany, bunds rose sharply after Mr Hans Tietmeyer, the president of the Bundesbank, announced that he would press for the strictest possible interpretation of the Maastricht convergence criteria.

countries not being greater than 3 per cent of gross domestic product.

The comments were seen as aimed at increasing inves-tor confidence and levelling out a yield curve, which Mr Tietmeyer said was unneces sarily steep. The spread between the repo rate and 10-year bunds is more than 300 basis points.

US concerns dragged the benchmark 10-year bund hack to close only 6 basis points higher at a yield 6.17 per cent

Germany also gave details of today's auction of two-year paper. The debt will carry a coupon of 3.5 per cent, the bottom of the forecast range.

French paper remained firm in the wake of the summit and ahead of today's cost-cutting budget, Also the Treasury said it would Specifically, analysts offer between FFr17bn and pointed to the stress placed FFr19bn of 1998 and 2001

deficits of Emu member auction, tomorrow. Yields on the 7.25 per cent OATs due 2006 eased slightly to 6.15 per

> ■ Spanish debt hit new highs ahead of official comments that suggested a further reduction in key interest rates.

GOVERNMENT BONDS

Bonos jumped sharply, with the 10-year yield falling 9 basis points to 8.38 per cent and the 10-year spread over bunds falling to 216 basis noints from 223 points on Monday.

Spain's budget office direc-tor said the government would cut spending by Pta800hn to meet 1997 European convergence criteria for the public deficit. The 1997 budget is to be presented to parliament this

said spending would "be

New international bond issues

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8.29 8.95 7.98 8.05 8.29 8.29 8.44 8.07

8.22 8.13 5.85 8.30 8.12 6.16

Open Sett price Change High

by Mr Tietmeyer on budget BTANs at its next scheduled reduced by around 2 per cent compared with the final budget for this year".

Mr Craig Shute, economist at Bear Stearns, said: "By delivering a package of austerity for the 1997 budget, the government will raise the prospect of the Bank of Spain cutting the key [repo] rate by a half a point." The Spanish repo rate is 7.25 per

■ In the UK, news of a higher than expected public sector borrowing requirement took the shine off gilts. A deficit of 24.53bn in August, compared with estimates of about £4.1hm, cast doubt on the government meeting its funding target for the year and also on the scope for pre-election tax cuts. Ten-year gilts fell 🛔

The Bank of England announced it would auction 23hn of 25-year, 8 per cent gilts next Wednesday. The month and Mr Jose Barea issue will be fungible and

finance ministry unveiled a 1997 borrowing requirement of Fl 33.5hn, compared with a downwardly revised Fi 85.1hn in 1996. The gov-ernment will also use cash reserves to reduce the Fl 33.5hn requirement by

about Fl 10bn. The 10-year benchmark yield fell to 6.06 per cent with the price rising 25 basis

■ The yield on the bench mark 30-year US Treasury touched 7 per cent briefly in early afternoon trading yesterday amid reports that a majority of Federal Reserve officials favoured an increase in interest rates. Near 1.30pm, the long

bond had regained some ground but was still down & at 96% to yield 6.987 per cent nt was even sharper at the short end of the maturity spectrum, where the at 99H, yielding 6.21 per

Lebanese group close to making **GDR** issue

and Roula Khalaf

Solidere, the Lebanese company in charge of recon-structing Beirut's commer-cial district, is in the final stages of issuing Global Depositary Receipts, bankers said yesterday.

A road-show is planned next month and the GDRs paper traded in lieu of underlying shares - are likely to be issued by mid-October. They are expected to be listed on the London Stock Exchange, Merrill Lynch, which refused to nment on the deal, is lead manager, Flemings and ING are also involved.

Although the amount is not yet fixed, bankers believe it will be in the region of \$100m. Reports of an imminent issue have been circulating in the local market since early this year. Solidere is Lebanon's largest company, with a capital base of \$1.82bn, including \$1.17bu in property and \$650m from a domestic share issue in 1994. Mr Rafic Hariri, the prime minister, is the single largest share-

holder with a 6 per cent STREET Demand for its shares has been dampened by the company's by-laws, which allow only Lebanese and Arabs to hold the stock. Sales by property right holders who were given shares have also capped the performance. Bankers hope the GDR issue will bolster the price by attracting international

institutions with long-term

investment horizons. Solidere shares, listed on the Beirut secondary market, closed yesterday at \$114%, up \$2%. In the last two weeks, they have risen around 10 per cent.

Borrowers from the periphery win finer terms

By Richard Lapper, Capital Markets Editor

Rates are falling and tenors becoming longer on syndi-cated loans to borrowers from the "European periphery". With margins waferthin on loans to the most creditworthy western Euro-pean borrowers, banks are

SYNDICATED LOANS

bidding fiercely for business from eastern Europe, as well as countries such as Isrnel, Greece, and Turkey.

The terms on a seven-year \$200m loan for the State of Israel, the mandate for which was awarded yesterday, are likely to reflect these pressures, According to bankers, rates for the loan are likely to be well inside the levels agreed on an earlier facility in 1995.

Last year, Israel borrowed \$100m over five years, with a four-year element priced at 45 basis points over Libor and a fifth year at a margin of 50 basis points.

NatWest Markets (which will co-ordinate the books on the deal), Bank Hapoalim (the agent), Banque Nat-ionale de Paris, Bayerische andesbank and Dai-Ichi Kangyo Bank (documenta-tion) were awarded the mandate. Syndication is expected shortly.

In eastern Europe, loans to two Slovakian utilities are particular focuses of attention, Slovenska Telekomputkatie, the telecoms company, is understood to be borrowing \$100m over five years at 45 basis points over Libor. Bankers say Slovenska Elektrarne is also looking to reenter the market and sugseek easier terms than the 87's basis points over Libor on the \$150m it borrowed in

Hungarian borrowers have also seen prices fall, although this has been influenced by the country's entry this year into the OECD, which means banks lending to the country and to stateguaranteed borrowers need not set aside any capital against their loans.

For example, One Hungar-ian borrower, the Central European International Bank, is borrowing \$100m over five years at a spread of 30 basis points over Libor.

Elsewhere, UBS said on Monday it had been selected to underwrite \$660m of bank financing for a 550MW coalfired power project at Que-zon in the Philippines. The deal reflects the trend for project finance sponsors to combine bank and capital markets finance.

Proceeds from the loans will be supplemented by a \$200m equity investment by Fieldstone Private Capital Group, a specialist merchant bank and, if necessary, by a bond issue placed with US institutional investors under the Securities and Exchange Commission's rule 144a.

The project's sponsors International Generating Company (Intergen), a power generation company; Ogden Energy, a power plant operator; and PMR, a Philippine power development company will sell power to the Manila Electric Company with a 25-year power sales

Ogden said the build-ownoperate project would be one of the first private sector generation facilities located in a developing country selling power to a privatelygest it would be likely to owned utility.

Mexico increases global deal to \$1bn

By Samer lakandar

Primary market officials at other houses were surprised Sachs and Merrill Lynch announced they were increasing the amount of Mexico's planned \$750m 20-

INTERNATIONAL BONDS

year global bond to \$1bn. while tightening the pricing from an indicated 450-462 basis point spread over the long bond to 445 basis

"To do that, they must have felt very confident interest." one banker said.

WORLD BOND PRICES

HENCHMARK GOVERNMENT BONDS

11/08 91.8090 +0.330 05/06 100.1700 +0.200 05/06 100.1700 +0.110 12/08 97.7000 -0.190 03/08 106.0400 +0.240 10/01 100.8320 +0.040 10/01 100.8320 +0.040 10/0408 107.7500 +0.140 04/08 107.7500 +0.080 108/06 105.4100 +0.380 02/06 108.38300 +0.100 8 06/01 120.3811 +0.070 09/05 101.2618 +0.540

101.2546 117.4200 121.4300 102.8300 89.5635 103.24 96.-11 108.-19 101.-15 96.-29

08/08 02/05 04/08 02/06 12/00 12/08 10/08 07/08 08/26 04/08

8.500 11.875 8.600 6.000 8.000 7.500 9.000 7.000 6.750 7.000

124,06 123,96 123,28

E LONG TERM FRENCH BOND OPTIONS (MATIF)

UK GILTS PRICES

+0.20 +0.20 +0.20

High 98.36 97.17

- 2005년 - 1005년 - 100

5.77 100% 5.65 10233 5.74 1073 5.85 10233 5.86 1054 6.03 1044 6.03 1044 6.03 1044 6.04 1114 6.05 1083 6.07

7.04 8.73 7.75 8.77 9.88 4.25 6.62 7.10 8.52 9.79

US INTEREST RATES

However, most professionals said the decision did not seem unsettle investors. "[The lead managers] ran the risk of destroying investors' expectations," said one senior banker in London.

tage of favourable market conditions in the capital markets to raise more than \$14bn in long-term sovereign debt this year. It has used the funds to retire more

.tdeb evizaegze Two other global deals in dollars have been announced. Ford Motor Credit will price its \$1bn of five-year bonds today at 48

"But they seem to be getting away with it." Mexico has taken advan-

-50 basis points over Treasuries, while the Student

7,97 6,12 6,39 7,39 7,09 5,31 6,15 6,17 7,21 8,96† 1,80

2.85 8.06 8.22 8.89 7.78 6.95 7.79 6.77 7.00 8.59

+0.540 +0.250 +0.420 +0.550 +0.350 -3/32 -9/32 -14/32 -17/32 +0.250

Low 123,78 123,66 123,08

2.94 6.25 8.49 8.64 8.06 7.07 7.45 8.01 6.92 7.10 8.75

Est. vol. Open Int.

Dec 0.10 0.15 0.30 0.52 0.88

Est. voi Open Int.

131,227 1,745 2

PUTS Nov 0.06 0.15 0.30 0.61

3.18 6.27 8.65 8.65 8.22 7.06 1.79 7.91 8.53 6.81 8.78

Strike Price 11790 11800 11800

	Amount	Coupon	Printer.	Make By	Fees	Spread	Book-ramper
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W US DOLLARS A W	3172				20.04.0		
Ford Motor Gradit Co	1bn	(e)#	MR	Sep 2001	0.36R	(4)(61/2/6-01)	Goldman Sechs & Co
United Medcan States(b)	250	(D1,4)(Sep 2016	1,00R	+445(8%-26)	Goldman/Memil Lynch
Metropolis of Tokyo	250	7.125	99.98R	Oct 2006	0.325R	+28(7%-06)	IBJ international
Berger Corporation	250	6.75	99,745R				Deutsche Morgen Grenfe
N YEAR		1,00					
Sercieys Benicki);	20bn	(£1,I)	100.20	Oct 2006	0.40	-	Baroleya de Zoata Wedd
E STATE PLANTS	ALL SALES			W. 241			
Bayeraiche Vereinsbank	150	4.50	102.15	Oct 2006	2.75	-	Credit Sulme

inel terris, non-callable unless stated. Yield spread (over relevent government bond) at leunch supplied by lead mens Unleted. \$ Floating-rate note. #Sami-ennuel coupon. It facel re-offer price; fees shown at re-offer level. a) Priced today Solip over Treasuries. b) latus leunched on Monday was increased to \$15m. bi) Priced today, c) Callable from Oct 200 er. e1) \$-mth Libor +10bp to Oct 2001, then +60bp. () Long 1st coupon. a) Short 1st coupon.

Lows Marketing Association (Sallie Mae) issued a total of \$1.5hn in three tranches.

Two smaller issues, of \$250m each, were launched by the Metropolis of Tokyo and Bayer Corp. The first, with a 10-year maturity, tapped institutional demand from continental Europe (35 per cent) and the UK (25 per cent). Launched with a

basis point, according to IBJ, the lead manager. Bayer's paper, with a five-year maturity, was aimed more at German, Swiss and

Benelux retail investors. Lead manager Deutsche Morgan Grenfell said it benefited from rarity value, being the borrower's first eurodollar bond in two years. Elsewhere, Barriays Bank spread of 28 basis points, it issued Y20bn of exctic rapidly tightened by one step-up floating-rate notes.

0.51

Low Est, vol. Open Int.

0.15 0.45 0.86

Lead manager BZW said the structure was inspired by a similar deal it launched two months ago denominated in D-Marks. Just over one-third of the new bonds were placed outside Japan, mainly in Europe.

Price in: UK Gilbs

The quarterly coupon of Libor plus 10 basis points is

increased to Libor plus 60

points after the fifth year if

the borrower does not exer-

•	UK Gills	Sep 17	Day's change %	Sep 16	Accrued	yto .										Yr. ago	
	1 Up to 5 pers (20)	121,80	0.01	122.07 149.20	2.14	7.85 S 7.51 18		7.07 7.98	7.05	7.45 7.97	7.15 7.89	7.14 7.07	7.46 8.00	7.10 7.40	7.16 7.98	7.55 6.07	
	3 Over 15 years (6)	183.04	-0.20 -0,57	163.37	3.08 4.35	8.84 20 7.30 km	yma .	8.08 6.15	8.18	8.01	8.00	80.8	8.03	8.09	8.08	8.09	
	5 All stocks (56)	143.29	-0.08	140.50	1.70	7.76	:	ours bes	flation !	PM			lation 10				
	Index-linked					1 1.				8 Yr. ag	o		Sep 10		3		
	6 Lio to 5 years (1)	200.97	0.02	200.94	9.80	448 15	a 10 5 vor	134	1.14	9.86		-0.86	-0.66	1.79			

Over 5 years (11) 189.97 0.02 1.14 3.55 Over 5 yrs 189,98

PT-ACTUARIES FIXED INTEREST INDICES

			***	-					
	9ep 17	7 Sup 16	Sep 13	Sep 12	Sep 11	Yr ago	High"	Low	
Govt. Seco. (UIQ	98.32	98.45	98.26	92.83	92.86	94,32	98.34	91.59	
Phond Interest	113.18	113.24	113.1	112.93	112.87	113.09	115.23	110.74	
* for 1996. Coverno Government Securitie	ent Secu 6 15/104	rideo irigio S and Pau	alace c ci istere	orspilatjo et 1920. S	E activity	(DO/01/35 Indices	, low 40 staged t	L18 (09/0 974,	V

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	Sep 16 · Sep 13 Se	ep 12

	THE ST	891	יועות	-					GIL.	EDUBE	ACHYN	A DATAC	25			
	9ep 17	Sup 16:	Sep 13	Sep 12	Sep 11	i Yr ago	High"	Low			Sep 16	· Sep 13	Sep 12	Sep 11	Sep 1	Q
Seco. (UK)										ged bergein	m 99.2	85.6	61.0	80.8	86.3	Ξ
Interest											85.1	81,7	79.9	76.7	74.9	1
NG. Coverno	ent Securi	des ides	alace o	orspilatio	E 127.4	(09/01/36	, low 4	118 (DB/C	M/76, Paud	lennrout Inight	eince completion;	188,67 (21/01	1 /9 4, low 50	53 (03/01/76)	. Hanie *	It
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NOTIONAL SPANISH BOND FUTURES (AIET) Open Sett price Change High Low Est. vol. Open Int. 20,965	Basis								
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Separate Color C		103.20	103.84	+0.59	104.18	108.06	90,812	69,845	
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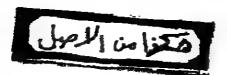
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6.36	World Bank 5% 08 3000	100%	1014	-4	5.72	Gibbs 8 03 P 1000 Gibbs Welcome 8% 05 P 500 Hencon 10% 97 P 500 HERC Holdings 11,19 (12 P 15)	10212	1025	4	7.50
7.12						Gimo Welcome 8% 05 2 500	1034	103	_	8.22
6.68			٠			Hereon 10% 97 2 500	104	1044		8,44
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6.76	Desmark 44 99	103	1034	44	2.55	Japan Dev Bk 7 00 £ 200	100 ¹ g	100 ¹ 2	₩.	6.96
7.00	100 47 to 1000	106/2	1045	+4	2.50	Land Secs 8-5 01.5 500	108	105%	냭.	8.60
6.05	98 Bir 04 200	1194	1142	4	4.73	One 11 4 01 E 100	1134	113%		7.43
8.06	Perfect 71 pg. 200	1112	1721	3	216	Constitution of 103 5	1044	106		7.90
7.17	louberd 7% 00	1143	1147	74	374	Thing Class Charge at 1142 Mar.	111	1114		7.04
7.27	Itter Amer Day 414 00 600	104%	105		3.83			1134	4	7.51
7,74	Orderto 6% CB	1113	1124		4.11	Whytel Deck G DO NOS	102	103		8,72
5.66	Ourbec Hydro 5 08 100	1015	1034		4.82	Court Lord & M Etc.	TUT 7	102	幸	830
626	Onterio 64, 03 400 Ousbec Hydro 5 08 100 SNC7 7 04 450 Sweden 14, 05 500 World Bank 0 21 700 World Bank 7 01 500	1185e	119	44-	422	Credit Local 6 01 FR: 8000 Denmark 512 90 FR: 7000 Elec de France 81s, 22 FR: 3000	HARTS	10212	7	5.48
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6.98		11134	4415	4	2.86	Betterreits 1 89 72 750 Carada 1 99 2000 COCE 0 06 Bou 200	39.95	100.00		2500
6.59	55 Pg 00 100000	1167	1174	4	1.62	Canada -4 99 2000	99.65	99.72		2852
7.10	En-im Bunk Japan 4 ³ e 03 105000	1114	1113	1	2.52	200	99.58	99.72		2578
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7.55	World Bank 5% (IP	1157	118	ąl _a	2.18	Mil Bank Inti 4, 99 Ron	100.44	100.54		.7812
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7.4B	CULTURE STRAIGHTS					LKS Bacien-Wust Fin -1 95 . 1000	89.91	20.00		4766
7.08	Credit Forcier 7.50 (2 Lift 2000	1022	1032		7.08	LOS Bacter-Wuter Fr. → 98 . 1000 Lloyde Senix Perp S 0.10	85.25	86,78		8295
7.12	285 74g 05 UF 3000 World Benk U/g 04 UF 2000 ASM Armo 67g 00 R 1000 Austria 6/2 89 R 1000	105	108		6.38	Malaysia & 05	99.80	90.96		1425
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422	NSW TREELIN ZWO D 20 AS _ 1000	131	144	-4	148 145	Opdan 6 2	76 P	L not	• •	
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6.45	R & Bank 74, 03 AS 125 State Bk NSW 9 02 A\$ 300	1047	1054		8.09	Sumitomo Bank 31 ₈ Ot 900 940	- 7.50 - 2.50	υν τυ ∛ε 53Å		0.69
267	Sth Aust Govt Fin 9 02 A\$ 150	1045			7.95 8.00	Sun Alliance 74 08 2 res	3.9 107	PE 1084		3,64
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FINANCIAL TIMES WEDNESDAY SEPTEMBER 18 1996 *

MARKETS REPORT

Emu speculation boosts dollar and franc

By Richard Adams

The US dollar and French start of the week. franc rose against the It rose against the D-Mark \$1.5568. D-Mark on currency markets to end at DM1.5143 at the yesterday, after a blizzard of close of trading, from The D-Mark's fall came comments supporting Euro DML5095 the previous day. after Emu was robustly pean monetary union and

est rates will soon be cut. The finance ministers and important resistance levels Kempten yesterday. Sentral bank chiefs of France against the D-Mark around Mr Mark Cliffe, chief intercentral bank chiefs of France against the D-Mark-around against the D-Mark-around meeting in Germany with series of statements outlinsing the nath towards From the nath towards ing the path towards Emu. Meanwhile, Mr Helmut Kohl, Germany's chancellor, said that the first round of Emu that the first round of Emu Sterling gained on the would consist of five to back of the dollar's rise and

claimed that "eight out of the 12" district banks in the

sentiment that gripped the market led to gains in

POUND SPOT FORWAR

Sep 17

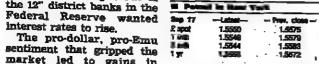
Europe for the dollar, after a DM2 350. Against the dollar listless performance at the it traded in tight ranges,

The French franc benefurther claims that US inter- fited from the D-Mark's French and German minis-

the D-Mark, to SKr4.378 from SKr4.396.

seven members.

In the US, the Reuters news of a higher than expected government budget deficit for August. The pound was worth DM2.3548, from



closing at \$1.5551, from

decline, breaking through ters and central bankers in

krona also leapt up against German ministers get together they make supportive noises about monetary union, and we saw that

Asked if any leniency will be applied in interpreting the Emu criteria of the the Emu criteria of the economist at ABN Amro in Masstricht treaty, Mr Hans London, said: "Mr Tietmeyer Masstricht treaty, Mr Hans
Tletmeyer, the Bundeshank
president said: "That has to
point that it's all ultimately
the politicians' decision."

Mr Tletmeyer's comments
were interpreted by analysts
as allowing a more flexible

London, said: "Mr Tletmeyer
was making the explicit
that it's all ultimately
the politicians' decision."

Mr Tietmeyer also said
that Germany and France
must still make major steps
for a solid European cur-



entry criteria to be dictated

Mr Tony Norfield, treasury

DOLLAR SPOT FORWARD ADAINST THE DOLLAR

"properly" applied.

Meanwhile, Mr Kohl was to FFr3.38.

been enjoying its best period since the spring. But Mr Cliffe warned: The big quas-tion is, can the French franc banks in the Federal Reserve consolidate over FFr3.40?"

rency union, and that the its June 19 high at FFr3.3975. criteria for entry must be If that breaks down, the the franc could go all the way up

telling an audience in Argan-tina that would be five to major focus for the markets Mr Cliffe said the next seven original members of will be on the minister's Emu. There will be five, six meeting in Dublin this week-or seven, in any case a suffi-end. The Dublin meeting has cient number," Mr Kohl said. scope for details of the proposed Emu stability pact,
The weakening of the and ERM II, the future D.Mark is good news for the exchange rate mechanism French franc, which has linking currencies outside Emu to the Euro.

System have requested a rise Mr Norfield said that the in the 5 per cent discount tranc's next major resistance rate amid mounting evifranc's next major resistance dence the pace of US expan-sion is likely to be brisk in the second half of 1996, Reuters reported a senior Fed official as saying.

> Por the latest market update, ring FT Cityline on +44 990 209909

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	MONEY R	ATES							
	September 17	Over	One	Three	Spix mathe	One	Lomb.	Dis.	Repo
		night	(Heliul)	muna	1100-4	Year	Part.		(aut
	Balghan	34	31	314	3,	31	6.00	2.50	_
	week ego	\$ <u>1</u>	3	34	34	316	6.00	2.50	-
	France	317	32	314	39	32	3.35	-	4.75
	week ago	31/2	32	34	34	4		_	4,75
•	Cermany	2%	31	3	34	31	4.50	2.50	3.00
	Week ago	37	34	27	314	311	6.50	2.50	3.00
•	Ireland	54	5%	5#	53	53	-	-	6.25
	100 mark 1000	54	514	\mathcal{A}_{i}	5	8%	-	-	8,25
;	Itnly	8%	911	84	8%	87	_	6.25	8.50
	Week ago	82	811	251	52	84	-	8.25	8.56
	Netherlands	22	22	2%	25	37	-	3.00	3.30
1	week ago	244	2	2	2	37	-	3.00	3.30
	Switzerland	14	1%	1%	15	2:4	-	1.50	-
۶,	wask sgo	1%	1%	24	24	28	_	1.50	-
- 1	US	514	잻	514	54	8	-	5.00	-
	week ago	5 <u>å</u>	53	54	25	윮	-	5.00	-
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•	Interberyk Floring	-	54	54	5%	By	-	-	-
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Į	US Dollar CDs	_	5.13	5.21	5.35	5.B4	-	-	_
.	week ago		5.13	5.34	5.5D	5.82	-	-	-
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1		term	notice	m	onth_	months	mor		year
-	Belgian Franc	34 - 212	3/4 - 2	81 SL	9 - 3	38 - 3	3.5	3Å 3	13 - 3h
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WORLD INTEREST RATES

Mici rates are an						H Links Oe	open (Ce).
EURO C	UTIN	ENCY		COST I	CATES		
Sep 17			days stice	One month	Three months	Months	One
Belgian Franc			- 281	34 - 3	3/2 - 3/2	34 - 34	311 - 34
Danish Krone				34 - 3 <u>1</u> 5	3월 - 3월	3년 - 3년	48 - 4
D-Miles				31 - 21	34 - 21	3A - 3	34 - 34
Dutch Guilder				21 - 21	2분 - 2년	211 - 21	39 - 39
French Franc				3ft - 3ft	37 - 313	34 34	34 - 34
Portuguese Es	C. 74	- 74 74		74 - 74	74 - 74	74 7	74 - 74
Spanish Pepet Starting	795	· 74 74		益 独	海-超	74 - 04	75 - 01
Swiss Franc		- 14 14		推 - 福	2 - 17	512 - 54 24 - 112	614 - 24 614 - 6
Gen. Oaler	41-	- 31 44	- 3%	4 37	4 - 37	44 44	42 47
US Delar		5 5%		52 - 1	52 - 54	54 - 51	6 - 512
Italian Line			- 85	16 - 8H	843 - 8A	84 84	65 65
Yen	75				14 - 11	2	11 - 2
Asian \$5ing			- 2.%	러 - 해	87 - 2H	3ľa - 3	3 . S.
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	Commi	Sett price	Change	High	Low	Est. Vol	Open Int.
Dac 5	95.20	98.22	+0.04	_	96.17	38,703	54.D48
	98.16	96.17	+0.04			10,882	37.172
	BL04	98.05	+0.04	98.07	95.99	4.897	23,903
						-	
AL THREE M	онты	ELIZONA.	nic man	ranko a K	PPP DATE	m points of	100%
							•
	Open	Sett price	Change		FOR	Est. voi	
	8.81	98.81	-	96.83	96.80	35276	225951
	8.72	MI.74	-	96.75	96.70	30269	214231
	8.52	96.52	-	98.58	96.51	31415	158630
	6.24	10.25	-	94.32	96.23	24261	119794
II THINKS M	ONTH	TUROLIR	A PUTU		E)" L1000r	n points of	100%
	Open	Sett price	Change	High	\.cm	Est. You	Open int.
Dec 6	2.03	92.08	10.01	92.07	92.00	15515	58189
	2.33	82.35	+0.02	92.39	82.32	3550	29128
	2.44	92,48	+0.04	82.50	92.44	1808	22657
	2.48	92.49	+0.03	82.59	22.41	1414	11116
IN THESE MOI		NO SHINES	TANG P	UTUNGS (L	IFFE SFrim	points of 10	0%
	Open	Sett price	Change	High	LOW	Est. vol	Open int.
Dec 9	7.80	97.91	+0.01	87.94	97.69	5763	46681
	7.78	97.79	+0.02	97.85	97.78	3436	17067
	7.57	97.58	+0.02	97.61	97.57	1169	6039

13707 0.0 13735 -0.2 88.4 97.57 97.58 +0.02 97.81 97.57 97.34 97.33 +0.02 97.36 97.33 THREE MONTH EUROVEN FUTURES (LIFFE) Y100m points of 100% 108.856 4.8 106.115 4.6 123.0 2.5029 -1.1 2.5254 -1.2 1.4369 -2.5 1.4646 -2.3 99.34 99.32 -0.01 99.34 98.16 99.14 -0.01 99.16 98.96 -0.01 98.99 99.32 90.14 98.97 THREE MONTH BOU PUTURES (LIFFE) Earlin points of 100% Open Sett price Change High Low list, voi Open int. 95.80 95.78 - 95.80 95.73 95.75 +0.01 95.78 95.81 95.41 +0.01 95.98 95.41 95.40 +0.02 96.45

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Esu - 1,2420 +0.0008 412 - 486
SDR† - 1,074800
Azsertoss
Argentins (Peso) 1,5549 -0.0017 543 - 654
Brazil (78) 1,5849 -0.0018 841 - 856
Ceneda (08) 2,1314 -0.0021 305 - 324
Mexico (New Peso) 11,6737 -0.0227 842 - 872
USA (6) 1,5681 -0.0017 546 - 556
Peciso/Hibidille Sent/Africa
Australia (AS) 1,9677 -0.0073 664 - 589
Horio Kono 6+69 12,0252 -0.0127 209 - 285 USA
Pactition/Ministrips Empt/Africa
Australia (A) 1.9677 -0.0073 864 - 886 1.1
Hong Kong (HKS) 12.0252 -0.0127 209 - 295 12.1
India (Phi 55.5172 -0.0007 883 - 460 53.1
Ingha (Sirk) 4.9299 -0.0021 244 - 888 4.1
Ingha (KKS) 1.9614 -0.0021 244 - 888 4.1
Inghappine (KKS) 2.2298 -0.075 793 - 884 3.1
Inghappine (Phi 40.7903 -0.0448 180 - 686 40.1
Sauci Arabin (SPI) 5.8324 -0.0063 302 - 346 51
Sauci Arabin (SPI) 5.8324 -0.0063 302 - 346 51
Sauci Arabin (SPI) 5.8324 -0.0064 719 - 831 3.9
South Africa (Fi) 6.9770 -0.0004 709 - 831 3.9
South Africa (Fi) 6.9770 -0.0047 798 - 990 128
Tanisma (Fi) 3.94919 -0.0497 484 - 914 42.2
Thalland (Fi) 3.94919 -0.0497 484 - 914 42.2
Thalland (Fi) 3.94919 -0.0497 19 - 722 30.5
Petens for the 13. Biolofiber spreads in the Pound Spot table effort on the arabid by the state of the content from 176.5

High	low	Pinte	SEPA	Parie	%PA	Finish	%PA Eng	. Indias			mid-point	on day	apreed	high	low	Rate	%PA	Rate	%PA	Rate	MPA	index
	, .		,					•	Peropo													
16.5795	16.5292	18,5386	2.3	16.4695	28	•	-	ROLL D	Austria,	(Schi)	10.6551	+0.0333	523 - 578	10,8650	10.6121	10.6366	22	10,5936	23	10.4101	2.3	104.9
48.5450	48.3650	48.393	24	48.203	24	47,435		106.7	Belgium	(BFI)	31,1800	+0.1	900 - 000	11,2000	21,0000	81,125	2.1	31,0175	2.1	30.515		106.5
\$ ±0663	9.D412	9.05	1.8	9.0207	1.5	8.8218	1.5	107.5	Dermosic	(DK)	5.8264		267 - 300	5.3526	SHITT	5,8209	1.5	5.8039	1.7	5.7349	1.6	107.0
7.1050	7.0500	7.087	0.7	7,0589	. 0.7			86.2	Pinland	(FM)	4.5473		495 - 510	4,5698	4.5353	4.5408	1.7	4.5288	1.6	4.4833		84.4
8.0081	7_9690	7.987	2.1	7.963	.1.9	7.8584		108.7	France	(PP)	5.1461		442 - 460	5.1509	5,1345	5,1378	1.5	5.1236	1.7	5.0548		108.1
2.3582	13435	23400	.25	2,8402	8.5	2.200	2.4	108.5	Germany	DM	1.5148		139 - 146	1.5181	1,5078	1.5116	2.1	1.5058	22	1.4786		108.0
376.629 1.9682	373.853 0.9657	0.9868		0.9858		-		67.1	Graeca	(04)	341,080		010 - 110	242.580	240.260	242.735	-8.5	246,085	-83	\$60.Dg	-7.9	66.6
2376.03	2366.48	237L37	0.6	2386.22	0.7	0.9811		10075	irefend	(12)	1.6078		070 - 085	1.6115	1.8048	1.8083	-0.4	1.8082	-0.4	1.8007	2.4	- 1
48.5460		49,505	2.4	48,208	24	47.433		76,9 106,7	itely		1525.83		586 - 881	1528.13		1530.58	-3.7	1538.73	-3.4	1561.48		76.4
2,8433	2,8290	2,8329	2.8	2.6200	27	2.5732		106.8	Nethedends		31.1800 1.8970		985 - 974	\$1,2000 1,8089	31,0600	81.125	2.1	81.0175 1,6865	2.1	30.516		108.5
10.1263	10.0370	10.0642	1.0	10.0472	1.0	9.9687		P6.5	Norwey	BNIGS	6.4772		762 - 762	6,5100	6,4565	1,6937 8,4742	2.4		25	1.8548		TOTAL STREET
240,648	240,001	240,908	-2.1	241.811	-22	400001	1-1	95.4	Portugal	(Est	154.540		500 - 600	154.800	154,300	154.055	-24	6,4687 155,545	0.5 -2.3	6,4322 157,60	0.7 -2.0	
196,649	188,004	198,745	-1.0	199.26	-1.6	200.66	-1.1	80.5	Spein	(Pto)	127,835		580 - 880	127.885	127,220	127,895	-24	128.315	-2.1	129.855	-1.7	80.3
10.3484	10.2815	10.2061	0.6	10.3062	0.0	10.3041	0.0	90.0	Sweden	(SIG)	8.6271		225 - 317	6.6449	8.8085	6,8282	0.2	6.8296	-0.1	8,8038	0.4	
1.9357	1,0284	1.0001	3.1	1.9183	3.3	1,5701		111.1	Switzerland	(SPI)	1.2437		434 - 440	1,2455	1.2380	1.2402	8.4	1.2327	3.5	1.1000		111.0
-	*			-	. —	, ,	-	86.1	LK	(2)	1,5551		548 - 556	1.5577	1,5530	1,5548	0.4	12542	0.2	1,5569	-0.1	85.8
1.2486	1.9894	1,2407	1.8	1,2337	1.4	1,2944	1.4	-	Emi	**	1,2521		817 - 525	1,2550	1,2501	1.2529	-0.7	1.2545	-0.8	1.2833	-0.9	-
	* =	-	-	-	-		-	-	SDAT	_	0.69270				-				-			!
									Americas													- 1
1.5674	1.5528	-	-	·. •	-		-	-	Argentine	(Peec)	0.9969		995 - 999	0.9900	0,9996	-	-	4	-		-	- 1
1,5864	1.5827	-	4			-	-	-	Brazi	(PH)	1.0100	-	190 - 199	1,0194	1.0190	-	-		-	-	-	- 1
2.1346	21294	2.1307	· D.4	2.1271	0.8	. 2.119	0.6	86.1	Canada	(CII)	1.3706	+0.0001	703 - 708	1,3718	1,3702	1,3704	0.1	1,3707	0.0	1.0/20	-02	85.4
11,5888	11,8590		-	, -		-	-	-	Maxico (Ne	er Peec)	7.5080	-0.007	090 - 190	7.5160	7,5090	7,8895	-25.8	7.8545	-18.5	3.018	-26.1	- 1
1.5577	1,8630	1.5548	0.4	1.6542	. 0.2	1,5500	-0.1	97.2	USA	(A)	-	-	-	-			-	-	-	-	-	98.0
									Pacific/Midd													- 1
1.9753	1,9847	1.9703	-1.6	1.0753	-1.5	2,0006		98.4	Australie	(AS)	1.2852	-0.0034		T.28	1.2646	1.2672	-1.9	1.2707	-1.7	1.2894	-1.9	94.5
12.0441	12.0000	12.0171	0.8	12.0055	. 0.7	11,9857	0.3		Hong Kong	04(3)	7.7326		325 - 330	7.7336	7.7325	7.7335	-0.1	Ar. O.	-0.1	.7	-0.4	-]
55,8530	55,1850	7	-	-	-		-		india .	(74)	35.7000		000 - 000	36,9200	35,4790	36.8 5	-5.0	36.185	-5.1	37,825	-5.4	-
4.9365	4.9233								lorant	(9)140	3.1701		676 - 726	3,1726	3.1665	-	-	•	-		-	
171.630	171,070	170.847	18/2	109,107	5.2	1億万金	5.D T	32.A	Japan	- : W	110,300		170 - 230	110,280	109.970	108,755	4.8	108,855	4.0	105.115	-	153.0
3.8930	3.5771			-			_	р.	Malayale.	(848)	2.4969		954 - 984	2,4995	2.4950	2.4988	-0.4	2.5029	-1.1	2.5284	-1.2	- 1
2.3429	2.2214	2.2306	-2.7	2.2001	-2.5	2,2730	-22 1	10.1	New Zooland	(NZE)	1.4310		306 - 316	1,4325	1,4305	1.4341	-28	1,4300	-2.6	1.4645	-23	- 1
10,8773	40,7062	• : •		■.	٦.		-	-	Philippines	(Peac)	26,2300		900 - 700	26.2700	26,1900	i			-	-	-	- 1
5.8416	5.8248		. =		-	-	• .	=	Saucii Arabia	(98)	8,7506		508 - 507	3.7514	3,7502	3.751	-0.1	3.7517	-0.1	5.755	-0.1	- 1
2.1974 3.9632	2,1925 6,9700		-		-	·	. =	-	Singepore.	. (De)	1.4118		111 - 121	1,4128	1.4100	1.4081	8.6	1,4021	27	1.3786	25	- 1
	1297,75	_	-	-	-	-	•	_	South Africa	(Moral	4,4865 896,850		840 - 890 500 - 200	4,4895	4.4835	4,534	-12.7	4,824	-12.8	4.9615	-10.6	1
	0.710		· -		-		_	-	Tabuan	(14)	27.5000		980 - 080	27.5100	27.456	27.505	-0.2	27.513	-0.1		-	- 1
	MR.4390				_			_	Theliand	1140	25,2960		900 - 000	25,4000		25,5025	-6.1	25,8725	-4.4	28.91	-94	- I
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the Bank	of Broken	Dene de	10	ed = 100, i		1/8/	16, EME, COM	rad	quoted to the r													
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7 1.9	. ,										353.5	2.561				(ms		ATTENTO				11
8 1.0									.108 2.301	1.716	189.1	1.370	1.1				of					1
12		5 3.29	0 12	59 300	19 2	18.1 1	2.89 24	117 1	250 2.868	1,944	214.2	1,532	1 1	TT Q M	950 00	0.00	6 16	'AL W.	D	90	Δ9	

CROS	SHATE	ES AF	ID DE	RIVAT	IVE	5												
EXCH	MGE C	ROST	BAT						1.									
Ber	17	BFT	DKr	FFr	1364	. 100		· 🖪	HIG		: Ethn	200	ar.	£	CS		Y	Elon .
Belgium	(BFr)	100	16.00	18.60	4.857	1,994	4904	5,442	.20.77	496.0	409.4	21.26	100	2.082	4.395	3.207	353.5	2.581
Demmerk	(216)	53.50	10		2,598 .	1.087	2618	2.912	11.11	265.3	219.0	11.37	2.134	1.108	2,361	1.716	189.1	1.370
	(FFr)	80.80	11.33		2.95	1.200	2015	3.296	12.59	300.6	248.1	12.60	2417	1.250	2.868	1.944	214.2	1.552
France	(DM)		2.840	3.307	1	BAT1	1006	1,121	4.276	102.1	84.29	4.378	0.821	0.425	0.005	0.660	72.78	0.527
Correcty			9.373		2.495	Service of	2454	2.729	10.41	248.7	205.3	10.66	2.000	1.034	2.204	1.508	177.2	1.284
ireland italy	阳		0.382		0.099	0.041	100.	0.111	0.424	10.18	3.365	0.434	0.082	0.042	0.000	0.086	7.223	0.052
Natherites	-	18.37	3.485		0.682	0.365	M00.2	1	1818	91.18		3.907	0.738	0.379	0.808	0.580	84.96	0.471
Norway	(Nic)		9,001		2.55	0.960	2357	2.621	10	230.8	197.1	10.24	1,921	0.993	2.110	1.544	170.2	1,233
Portugal	(Est	20.16	1.762		0.979	0.402	986.7		4.107	100.	89.54	4.287	0.804	0.416	0.896	0.847	7127	0.516
	(Pte)	24.43	4,566		1,186	0.487	1195	1,320	5.079	121.2	100.	5,194	0.974	0.504	1.074	0.788	NE.30	0.826
Spekı Sweden	SKI		8.791		2.284	0.938	2302	2.560	9.767	200.2	192.5	10	1.876	0.970	2.067	1,508	166.2	1.206
Switzeries	1		4.687		1.215	0.500	1227	1.385	5.207	124.4	102.6	5.301	1	0.817	1,102	0.804	M. 62	0.642
UK THE		45.40	9.064		2,355	0.967	2473	2.63	10.07	240.6	198.5	10.31	1.934	1	2.121	1.555	1714	1,242
Connecto	(CS)		4.253		7.100	0.454	1114		4,725	112.9	83.15	4.638	0.006	0.469	1	0.730	80.48	0.585
US	(0.0)	31.18	5.829		1.514	0.622	1526	1,897	6.476	1547	127.7	6,630	1.244	0,843	1,370	1	110.2	0.799
	. (2)	28.29	5.288		1.374	0.564	1354	1,540	5.875	140.3	115.8	6.015	1.128	0.588	1.248	0.907	100.	0.726
Japan	. (43	20.04	7.298		1.696	0.779	1911	2,125	8.108	190.0	159.5	8.301	1,657	0.806	1.716	1.252	138.0	1
	E cook So			ner, and S	7	fenore or	10t Se	islan Faton.		udo, Ura	and Steel	m per 100						-
Denish Kron	OC LABORED LA	MIC! MOU	region reta	— , —									•					
E D-MAR	K PUTURI	в (мм)	DM 125	000 per E	MA				· 🔳 4	APAIG	E YES	U) U	B (MAN)	Yen 12.	5 per Ye	100 .		
	Open	Latest	Change	ı High	· 1	CW I	Bat, vol	Open int.			Open	Latest	Chang	e Hig	jh L			Open Int.
8ер	-	0.6819	-	_			2,417	25,563 .	Sep		-	0.9053		-			6,710	26,329
Dec	0.6960	0.6652	-0.0008	0.696			13,661	66,666	Dec		1.9194	0.9198	+0.000				2,257	78.176
Mar	0.6697	0.6695	-0.0000	0.666	7 0.6	3863	10 -	1,188	Mar		_	0.9316	+0.000	8 -	9.0	g65	34	870
	FRAME FL	~	MANA SH	r 126.00	oer.S	Fr			8.4		e PUTU	nine (II/A	ND \$582.50	2 per 90				
-	LINE L		Section 64				_	· ·										_

LOND	ON MC	NEY P	ATES			:	'
\$ op 17		Over- night	7 clayer notice	One month	Three months	Siec months	One Year
Interbank Sterling Cl		5日 - 2	5H - 5H	5% - 5H	54 - 54 54 - 61	54 - 54 - 54	64 - 6
Treesury E		-	-	5월 - 5월	518 - 512	m	-
			-11 - 4 9	511 - 65	55 - 54	57 - 39	MR . 49
Local auth	ority depa.	55 - 512	班 強	25 - 26	34 - 94	24.25	
Discount I	Market dep	5.5 - 51	94 - MS	9-8 -	_		
1 St Alegan	a hard his	e lending r	ate 5% pe	r cent from	jume 6, 1	300	•
Par Campaign	A		Lie to 1	1-2		-	9-12
			month	(NORTH)	STORTE	MOUNT	- Month
			-1				4%
Ave. tender up day Aug 7.07pc, Ref	rate of disc 1986, 7986, A strance rate	eunt on Sep greed rate k for period Au	r period Se	25, 1986 1 Aug 30, 1	to Opt 25, 19 196, Schemi	996, Şohari III IV & V S.	esca, Mais es II & III E2Spc.
Gerts of Tis Ave. tender up day Aug 7.07pc, Ref	rate of disc 1986, 7986, A strance rate	eunt on Sep greed rate k for period Au	2 ¹ 200. Dep 13, 5.5142; or period Se 10 1, 1998 to	p 25, 1998 to Aug 30, 16	ent for cast and cata 50g to Oct 25, 19 96, Schame	1 Tupe. Bepart Pin 998, Sohmen IN A V S.I points of	esca, Maio es I A II E2Spc.
Gerts of Tis Ave. tender up day Aug 7.07pc, Ref	rate of disc 1986, 7986, A strance rate	ent on Sep ount on Sep greed rate in	21,00. Dep 13, 5,5142; or period Se up 1, 1998 to Sep 1, 1996 G FUTUR Change	cetts withda on ECGD 6 p 25, 1988 to Aug 30, 16 SS (LIFFE High	num for casi and rate Stg to Opt 25, 11 198, Scheme 2500,000	1 Tape. Began Pin 998, Sohen IN A V S.I points of Est, vol	mice. Male as II & III EZEpc. 100%
Certs of Tts Ave. tender up day Aug 7.07pc. Ref Finance Ho	ride of clac- ride of clac- 30, 1998. A erence rate use Base Ri E MONTH	r 2100,000 wount on Sep greed rate it for period Au see Spc tram Sett price \$4.15	21,00. Dep 13, 5,5142; or period Se ug 1, 1996 to Sep 1, 1996 G FUTUR Change -0.01	cetts withda be ECGD to p 25, 1998 to Aug 30, 16 SS (LIFFE High 94,17	ewn for ceel and rate Stg to Oct 26, 11 198, Scheme 2500,000 Low 94,14	1 Tupe. Legent Par 1006, Sohmer 10 A V S.I 10 points of Est. vol 6267	100% Open in 54558
Gerts of Tis Ave. tender up day Aug 7.07pc, Ref	rete of clec 50, 1996. A erence rate use Base Ri E ARONTH	r 2100,000 wount on Sep greed rate it for period Au see Spc tram STERLING Seft price 94.15	21go. Dep 13, 5.5142; or period Se g 1, 1998 to Sep 1, 1998 G FUTUR Change -0.01 -0.03	Delta Withda p. ECGO 6 p. 25, 1998 (p. 25, 1998 (p. 30, 16 p. 30, 16 p. 30, 16 p. 30, 16 p. 30, 16 p. 30, 17 p. 30, 17	2500,000 Low 94,14	1 Tape. Began Pin 998, Sohen IN A V S.I points of Est, vol	100% Open in 54558 107928
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Certs of Ter Ave. tender up day Aug 7.07pc. Ref Finance Ho E THRE Sep Dec	c dep. under rate of disc 30, 1986. / erence rate use Base R E MONTH Open 94, 18 94, 18 94, 05 93, 78	r exco.cot wo count on Sepo greed rate for period Audie Spc trom Sett price \$4.15 94.15 94.01 \$3.74	21ga. Dep 13, 5,6142; or period Se p 1, 1998 v Sep 7, 1998 G FUTUR Change -0.01 -0.03 -0.05 -0.04	25 (LIFFE High 94.17 94.06 93.80	norn for cash and rate Stip to Oot 25, 11 198, Scheme 2 500,000 Low 94,14 94,14 94,01	points of Est. vol 6267 .12077	esca, Mais es II & III E2Spc.
Certs of Tel Ave. tender up day Aug 7.07pc. Ref Finance Ho E THRE Sep Dec Mar Jun	c dep. under rate of dec 30, 1986. / erence rate use Base R E MONTH Open 94.18 94.05 93.78	r 2:00,000 to 2:00,000 to 2:00	21ga. Dep 13, 5.5142; or period Se pg 1, 1998 to Sep 1, 1998 to Sep 7, 1996 G FUTUR -0.01 -0.03 -0.05 -0.04 -0.03	Market Winds (2) ECGD 6 p 25, 1988 (2) Aug 30, 16 p 25, 1988 (2) Aug 30, 16 p 25, 1988 (2) Aug 30, 16 p 25, 16	nerri for cani ad sum 85g to Oct 26, 11 1985, Scheme 2500,000 Low 94,14 94,14 94,01 93,74 98,41	1 Tupe. . Expert Pin 1006, Sohern IN & V S. 1 points of Est. vol. 6267 12077 12300 9510	100% Open in 54558 107926 81773 85774
Gerta of Tel Ave. tender up day Aug 7,07pc. Ref Finance Ho E THRE Sep Dec Mar Jun Sep Allac traded	c dep. under rate of dec 30, 1986. A strate table use Base Ri E MONTH Open 94.18 94.05 93,78 93,42 on APT. A	r 2:00,000 to ours on Seo ours on Seo ours on Seo ours on Seo ours of the Section 1: STEPL SN Sett price: 94.15 94.91 93.74 93.41 Copen intern	21 pp. Dep 13, 5.5142; or period 5 sp 1, 1996 to Sep 1, 1996 to G FUTUM Change -0.01 -0.03 -0.05 -0.04 -0.03	Description of the control of the co	ewin for case and representation of the control of	1 Tupe. Export Pin 208, Sohami W & V S. Points of Est. vol 6267 12077 12300 9510 2023	100% Open in 54558 107926 81773 85774
Gerta of Tel Ave. tender up day Aug 7,07pc. Ref Finance Ho E THRE Sep Dec Mar Jun Sep Allac traded	c dep. under rate of dec 30, 1986. A strate table use Base Ri E MONTH Open 94.18 94.05 93,78 93,42 on APT. A	r 2:00,000 to ours on Seo ours on Seo ours on Seo ours on Seo ours of the Section 1: STEPL SN Sett price: 94.15 94.91 93.74 93.41 Copen intern	21 pp. Dep 13, 5.5142; or period 5 sp 1, 1996 to Sep 1, 1996 to G FUTUM Change -0.01 -0.03 -0.05 -0.04 -0.03	Description of the control of the co	ewin for case and representation of the control of	1 Tupe. Export Pin 208, Sohami W & V S. Points of Est. vol 6267 12077 12300 9510 2023	100% Open in 54558 107926 81773 85774
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U.S.\$250,000,000 6.15% Notes Due 2003 (the "Notes") of

EXXON CAPITAL CORPORATION (the "Original Issuer") guaranteed by **EXXON CORPORATION**

(the "Guarantor") The Notes are issued subject to and with the benefit of a Fiscal and Paying Agency Agreement dated as of March 11, 1993 (the "Fiscal and Paying Agency Agreement"), among the Original Issuer, the Guarantor, and Morgan Guaranty Trust Company of New York, as fiscal and paying agent (the "Fiscal and Paying Agent").

SUBSTITUTION OF PRIMARY OBLIGOR

NOTICE IS HEREBY GIVEN to the Noteholders that, pursuant to Sections 6(b) and 6(e) of the Terms and Conditions of the Notes, with effect on and from September 19, 1996:

the Notes, with effect on and from September 19, 1996:

1. Exxon Asset Funding Company ("EAFC"), an indirect majority-owned subsidiary of the Guarantor, incorporated under the laws of the State of Delaware, United States of America, will, pursuant to the provisions of a Supplement No.1 to the Fiscal and Paying Agency Agreement, dated as of September 19, 1996 among EAFC, the Original Issuer, the Guarantor, and the Fiscal and Paying Agent, be substituted in place of the Original Issuer as the primary obligor in respect of the Notes and the coupons appartaining thereto ("Coupons") and ander the Fiscal and Paying Agency Agreement; and

2. the Guaranter will confirm its irrevocable and unconditional guarantee of the due and punctual payment of the principal of, interest on, and other amounts payable in connection with the Notes and Composs.

No new definitive Notes or Compons will be issued and the existing definitive Notes and Compons will not be over-stamped or otherwise modified in any way. The Notes will, with effect from September 19, 1996, he listed on the Laxembourg Stock Exchange under the name of the Original Issuer followed by the name of EAFC.

A notice containing certain information regarding EAFC and copies of the Cortificate of Incorporation and By-laws of EAFC have been lodged with the Greffier on Chef du Tribunal

Any Noteholder who wishes to inspect copies of the Fiscal and Paying Agency Agreement or Supplement No. 1 to the Fiscal and Paying Agency Agreement mentioned above may do so at the specified office of the Fiscal and Paying Agent and other Paying Agents listed below:

Fincal and Paving Agent Morgan Guarunty Trust Coorpany of New York
60 Victoria Embankment
London ECAY 0JP

Paving Agent ome Parihes Lexembourg
10A Boulevard Royal
1-2093 Luxembourg
Luxembourg

Paying Agent Morgan Guaranty Trust Courpany of New York 35, Avenue des Arts B-1040 Brumels Belginns

EXXON CORPORATION By: Morgan Cuaranty Trust Company of New York

on Fiscal and Poying Agent Dated: September 18, 1996

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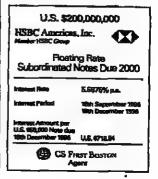
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London BC2H 275 LIND-WALDOCK & COMPANY ______

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Mortgage Backed Floating Rate Notes due March 2021	
For the Interest Period from September 15, 1995 to December 16, 1996, the Note	
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COMMODITIES AND AGRICULTURE

Scandinavians blame N Americans for newsprint price slide

By Bernard Simon in Toronto

Canadian and US newsprint mills have incurred the wrath of their Scandinavian rivals by sharply stepping up shipments to Europe and

offering cut-throat prices. The North Americans are trying to offload surplus output at a time of bulging stocks and tumbling domestic prices. "They're trashing

MARKET REPORT

LME copper

tone uncertain

every market around the world," one North American

Standard newsprint prices on the east coast of North America dropped by US\$50 to about \$550 a tonne at the beginning of September, and there are rumours of deals for October at \$500 a tonne. Prices peaked at \$750 late last year.

counter weak demand by

However, Canadian newsprint exports to Europe have soared to 440,700 tonnes in the first seven months of 1996 from 357,900 tonnes a year earlier. Shipments to the UK in July totalled 40,100 tonnes, up from 29,900

tonnes in June According to one UK prices in 1994 and 1995.

the surge in pulp and paper Although many have subsequently announced production cuts, some mills appear not to have matched words with deeds. According to the Canadian Pulp and Paper Association, stocks at US and Canadian mills have more than doubled in the past year to 696,000 tonnes at

producers, especially in South Korea and Taiwan. According to one industry. consultant, "the same ships are taking North American

breaking through the gloom. Publishers' stocks have fallen slightly in recent months, and mills will be

exacerbated by new Asian under more pressure to cu output as prices approach cash production costs. An executive at one large US paper broker predicted that "you're going to see a much firmer scenario by the middle of next year". One concern however, is that producers will again fall into

the pulp and paper indus-try's traditional pattern of seeking to recoup a slide in prices with hefty increases.

Bre-X bullish on Indonesian gold find

Canada's Bro-X Minerals might become one of the world's largest gold companies after the discovery of the Busang gold deposit in Indonesia, the firm's exploration manager Mr Michael T. Guzman said yesterday, reports Reuters from Hong-

Mr Guzman, speaking at an Asian Gold Congress here, said the find in East Kalimantan on Borneo island could also push Indonesia into the ranks of the world's top five gold produc-

As of July this year, datagathered by the company showed Busang contained total gold resources of 46.92m troy ounces, or 29.4 per cent of Indonesia's total resources, making it the second largest gold deposit in the country. Mr Guzman said, adding that the company's evaluations were still

not completed. Bre-X Minerals aimed to start open pit mining at Busang in the fourth quarter of the 2000, with an annual gold production enpacity of 2m ounces, Mr Guzman said. Preliminary data indicated up to US\$1bn of capitalisation was needed to get the

mine into production. The company owned majority stakes in three contiguous Contract of Work (government allocated mining right) areas in East Kalimantan, with minority stakes held by Indonesian joint venture partners, Mr

Guzman said. The Busang mine is located in rugged mountainnorth-west of Samarinda, the

1. 医角带性

数38.3

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capital of East Kalimantan. "Regular access to the area is by boat through the Mahakam River to Long Tesak village and onward along a gravel surfaced road 33km to the site base camp,"

COPPER prices ended an uncertain session at the London Metal Exchange yesterday, ending with modest

The cash/three months delivery spread momentarily traded at a \$2-a-tonne discount - the first since January 1995. At its peak in ember 1995 there was a cash premium, or "backwardation" of about \$330.

Premiums have been under pressure for some time, however, and this was exacerbated after Monday's "third Wednesday" September pricing, when previously tight delivery dates fell out of the market's price struc-

The market is long of the nearby dates through to October, with a \$5 cash discount, or "contango", prevailing.

Last business for three months copper was at \$1,870 a tonne, up \$5. Three months ALUMIN-

IUM registered another twoyear low, of \$1,411 a tonne before some light trade buying and short-covering hulted the decline.

Compiled from Reuters

tornes		
Aluminium	+7,400	10 955,100
Aluminium alloy	-240	to 85,720
Copper	-1,475	to 296,35 0
Lead	+550	D 114,450
Nickel	+510	20 38,718
Zinc	+676	to 550,250
The	4.85	to 10.125

By contrast, Swedish and Finnish mills have tried to

shutting down machines. rather than cutting prices. Their discipline has been rewarded by higher prices in

Europe that North America.

newsprint buyer, North American suppliers are currently quoting prices of £420 a tonne, compared to the prevailing Scandinavian price of £470. He said the most active exporters included Canada's Donobue and Abitibi-Price, and Champion International of the US. North American mills

the end of July. stepped up capacity during Over-supply has also been

newsprint back again".

bringing Korean newsprint to the west coast of the US Some rays of sunshine are

Greenlanders search for mineral wealth

Ordinary citizens are joining in the hunt for oil and metals, writes Hugh Carnegy

o anxious is Greenland to discover workable mineral deposits to boost its fragile, frozen economy that it has urged the public to join in the quest. "Go and look for rocks!" exhort posters with a drawing of a man eagerly panning for gold. A parallel campaign has the slogan:

"Go and look for oil!" The bid to involve ordinary citizens in the hunt for recoverable mineral resources is much more than gimmick in a land so far flung geographically, so thinly populated - and with such a hostile climate and

topography. Only 57,000 people live in Greenland, dotted around the jagged coastline of the world's biggest island. Most of the 2m sq km of the country is covered by a thick ice cap and the remainder is snow- and ice-bound for much of the year. No roads link the few small towns, which are separated from each other by vertiginous mountains and deep fjords.

In these daunting circumstances, using the intimate knowledge and access of the local people to the rock formations they inhabit has proved a useful way of helping to build up a picture of the geology of the land. Oil and gas, zinc and lead, copper, cobalt, gold and diamonds are among the many prospects that have been identified.

But helpful though rock samples from ordinary Greenlanders may be, it is foreign mineral and oil companies that the local government really needs to attract to test whether the island may be sitting on exploitable quantities of natural sources that would give a huge boost to the hardpressed economy. A steady rise in the num-

ber of exploration licences granted in recent years and especially some promising discoveries - have raised hopes in Nuuk. Greenland's tiny capital, that a breakthrough may be in prospect. There has been mining in Greenland before - notably of cryolite (a mineral used in the manufacture of soda and aluminium) up until 1987 and most recently at the Black Angel lead and zinc mine in Maarmorilik in western Greenland. But it

closed in 1990. "We believe the levels of foreign investment will increase. We think [minerals] are going to be a great income source for Greenland. It is hard for the pessimists to remain pessimistic," is the upbeat message from Mr Lars Emil Johansen, premier of Greenland's Home Rule Authority.

Geologists and engineers involved in the search are a the Texas Energy Corp.



good deal more cautious. One described the sourch for oil off Greenland's west coast as "the wild cat of all wild cat" prospects.

Whether the premier's optimism is justified or not is likely to be decided within two to three years as several projects that have emerged from the recent build-up of exploration activity reach critical points.

Since 1992, the number of

exploration licences issued by the Greenland Mineral Resources Administration has jumped from 20 a year to an expected 65 this year. Some 20 companies are now involved in ventures in Greenland, including several of the world's big names, such as Canada's Falconbridge, RTZ of the UK and

An important element in the rise in interest was a reorganisation of the legal background to prospecting in Greenland. Mineral resources ultimately remain within the authority of the Danish government in en, but responsibility for their administration is shared with the Greenland Home Rule Authority.

The MRA is a "one stop shop" for prospecting, exploration and production licences. For those that reach production, there are no royalties for minerals although this does not apply to oil and gas. Corporation tax is 35 per cent. The currency in Greenland is the Danish krone, one of the strongest European curren-

Geologically, Greenland has long been recognised to hold lots of interesting prospects. An important advantage for prospectors is the extensive data base of the. Denmark and Greenland geological survey, which is available in English.

But a big boost has come from the occurence of structures similar to those in neighbouring north-eastern Canada. There are hopes of finds in Greenland similar to the 1994 discovery by Diamond Fields Resources of nickel, copper and cobalt deposits in Labrador's Voisey's Bay. Dismond-bearing kimberlites in the Northwest Territories in Canada have also intensified the search for similar structures in Greenland.

land holds out most hope for is a zinc and lead discovery made in 1994 by Platinova, a junior mineral development company quoted on the Toronto bourse and partowned by the Greenland government. The find is at Citronen Fjord in the farthest north-east corner of Greenland, an Arctic desert where the coast is ice-bound year round. Supplies for the drilling operations have to be flown in - with a Boeing 272 once landing on a 2km runway cleared on the 2m thick ice during the winter.

Platinova has spent C\$5m (US\$3.65m) to date drilling 111 holes in a 10km by 2.3km area. Mr Erik Andersen, the managing director, is cautions about the likelihood of eventually moving to production. "We are not at the point of making a decision yet," he says. "But we've had some very good results from our work up there this

The biggest bonanza for Greenland would be a significant oil find. Platinova is involved in one on-shore exploration project in the Disko Bay area in western Greenland where oil prospects have been identified.

MEAT AND LIVESTOCK

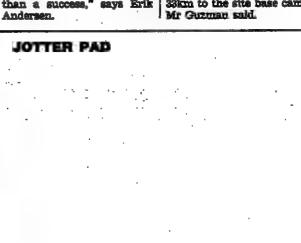
EI LIVE CAFFLE CME (40,000lbs; cente/lbs)

But the main hopes are focussed on the Fylla Banke area in the deep and frigid but ice-free - waters off south western Greenland where seismic work has identified hydrocarbon prospects. "We've got big expectations for this," says Mr Kim Zinck Jorgensen, petroleum geologist at the MRA. "There is a very good chance of gas. The question is whether there is oil under

Two international consortis are at present negotiating with the MRA over a licence to explore the prospect. One includes Dong, the Danish group, Norway's Statoil and Phillips of the US, the other Elf Acquitaine and Total of France. An award is set to be made by the end of the year, with drilling likely to take place in 1998.

With some 40 per cent of Greenland's economy accounted for by direct subsidies from Denmark, a breakthrough in mineral exploration would be a vital breakthrough for the whole, huge island. Not only would it offer the prospect of a long-term production operation - it would draw more precious exploration resources to the country. precious

"We need a few succe here. Nothing brings in more interest in this business than a success," says Erik



COMMODITIES PRICES

BASE METALS LONDON METAL EXCHANGE Prices from Amelgameted Metal Tradings M ALUMINIUM, 98.7 PURITY (\$ per tonge)

Previous	1389-90	1424-25
High/low		1425/1411
AM Official	137 5-6	1410.5-11.0
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Total daily tumover	78,830	
ALUMANUM AL	,	
Close	1 (95-305	1230-5
Previous	1203-05	1335-40
High/low	1196/1194	1240/1290
AM Official Karb close	1194-6	1227-30
Open int.	5.016	1230-40 1,675
Total daily turnover	4014	1,070
E LEAD (\$ per ton	-	
Close	777-4	700-1
Previous	790.5-81.5	795.5-96.5
High/low	771/770	785/770
AM Official Kerb close	F70/8-1/6	775-6 772-6
Open Int.	70,769	112-0
Total daily turnover	29,683	
III NICKEL (S per to		
Close	7910-20	7425-35
Previous Material	7290-300	7400-405
High/low AM Official	7265/7260 7265-70	7440/7360 7370-80
Kerb ciosa	7200-70	7430-40
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TRN (\$ per torme) 18,111 7,369 Open int. Total daily tumove

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Precious Metals continued ■ GOLD COMEX (100 Trey cal; \$/trey cal) Day's Open change High low Yel int

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MI HEATING OIL HYMEX (42,000 US galls; e'US galls)

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min. 89.95%, B5-100 cents a pound. Cobelts MB free market, 98.6%, 23.00-23.60 (22.90-23.60); \$9.3%. 22.10-22.70. Mercury: min. 98.99%, \$ per 78 to fleek. 162-172 (160-170). Molybdenus: drummed molybdic cride, 3.60-3.60 (3.30-3.50). Selenium: min 99.5%, 3.05-4.30. Trangates over standard min. 65%, \$ per torne unit (10kg) WO₂, cf. 45-55. Vansedium: min. 99%, cf. 3.00-3.10 (0.00-3.06). Harwigan: Nascop enchance value, 15.50.

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Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT. HYCE, CME, CBCE and IPE Crude Oil are one day in arrests. Volume & Open Interest

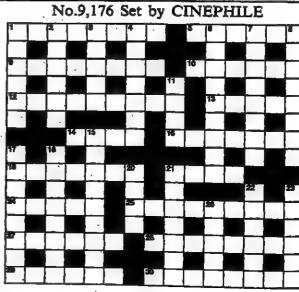
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ACROSS 5 SI sounds rosy (6)

9 Nasty sneer in fellow from CI (8) charming (6)
12 Sixth year of our era: black recommended (9)
13 Extremist last month with the big guns (5)

with mail being sorted (7)

19 Put sugar in – little – in a gun (7)
21 See 20
24 Religious work: after writ-

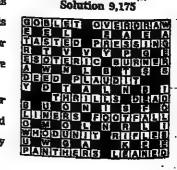
ing, singular charity (5)
25 A breather, perhaps, for one in karate (3,6) 27 Rough sea hides expression of disapproval, which is 28 I trusted remover of debris

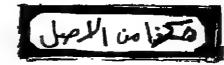
29 Very French company for 30 Tree with returning desire

1 Tonic for the great - silver identity disc (3,3) 2 Piece of clothing for record holder (6) Saint of SI featured by 4 Shaky start of movement, three times as much outride (7) 6 Liquor smuggler showing peculiar form? (3,6) 7 Ti or ME? (4-4)

It takes a turn in a gathering, going by the book (8)
11 CI in another mode (4) 15 Fall over garret, we hear, from force of habit (9) 17 Stick with remains of cigarette factory (8) 18 Sally goes quietly in the back with Peg (8)
20, 21 across Craft for couples

giving no sound of satisfac-tion to CI (5,3) 21 County cut off with a pound - it's fantastic (7) 22 Bird, saint of SI, could be drunk if I follow (6) 23 Garment for CI (6) 26 Bottle never broken (5)



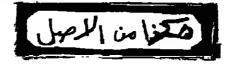


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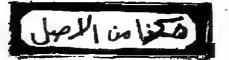
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HE NO COLUMN TO THE REAL PROPERTY OF THE REAL PROPE FINANCIAL TIMES WEDNESDAY SEPTEMBER 18 1996 31 LONDON SHARE SERVICE

LONDON STOCK EXCHANGE

increasingly wary of the marke

futures and options expiries.

ahead of Friday's series of

expectation that the recent good

economic news on both sides of

the Atlantic, pointing to only lim-

ited inflationary pressures, plus

the general euphoria in global

stock markets would see the

FT-SE 100 push hard against

Earlier, there was a widesuread

MARKET REPORT

UK stocks hit by revived US rate fears

By Steve Thompson,

A revival of fears that an increase in US interest rates may yet be on the cards after next week's open market committee meeting in Washington, put paid to any lingering hopes of UK equities ending the trading session in higher ground yesterday.

But even before the US market started to fall, London was making very heavy weather of establishing itself in record territory, with some institutions said to have been concerned with the August public sector borrowing requirement number. At £4.5bn, following July's £1.7hn repay- pointing 4.9 lower at 3,972.3.

Interest rate fears in the US hit Treasury bonds, which fell by around three-quarters of a point in early trading and also hit US shares, with the Dow Jones Industrial Average dropping over 40 points at one time. Both markets subsequently rallied, with the long bond a shade off its lows and the Dow down 25 points an hour after London finished trad-

The FT-SE 100 index, which began the day in such good heart and with many market observers hopeful of a dash for the 4,000

The gloom affecting the FT-SE ring to wait for the US industrial 100 encompassed the whole of the output details before deciding market, with the FT-SE Mid 250 retreating 12.0 to 4.450.0. The FT-SE Small Cap, on the other hand, managed a minor gain, closing 0.5 ahead at 2,188.1.

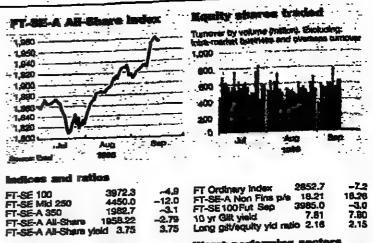
Dealers insisted, however, that the setback was only temporary. There really has been no sizeable selling into the market; on the contrary there has been more informed buying, but the market has run out of steam for the time being," was the view of one

trader. He said the big institutions had

this was viewed as disappointing, level, eventually settled a disapbeld off from the market during and quickly established a new the early part of the day, preferintra-day record of 3,986.7, before running into flurries of small profit-taking and general selling pressure which drove the index which way to go. He also noted that the institutions had become into negative ground.

Thereafter the index made numerous attempts to rally, getting back into the black on a couple of occasions but eventually succumbing to the downside pressure brought about by Wall Street's poor opening.

Turnover increased yesterday. picking up substantially between 5pm and 6pm and totalling 768.5m at the 6pm reading. Customer activity on Monday was Protsie kicked off on the untick valued at £1.51hp.



US court ruling lifts BAT

By Joel Kibazo and Lisa Wood

Tobacco and financial services giant BAT Industries cruised into pole position in the Footsie as the market celebrated news of a favourable US court ruling.

Shares in the group jumped 23% to 462%p as the market reacted to a ruling in Florida. The judge in the case dismissed all pre-1994 claims in the Medicaid suit filed by the state of Florida against the tobacco industry. BAT was the most actively traded stock in the premier

The news also prompted the return of talk that the group may consider a demerger of the financial services business from the group's overall activities.

BAT shares fall beavily in August after a court ruling went against its Brown & Williamson Tobacco subsidiary, prompting several brokers to turn cautious on the stock.

It was a different story yesterday as sentiment changed following the ruling. One dealer said: "We just could not get enough of the stock today" while an analyst said: "BAT is now less threatened by the big tobacco cases. The Florida ruling is significant as it was likely to be the toughest."

Transport brought turnover price competition. of 8.4m as the shares rose to new all-time intraday and

touched 993p at one point. The stock has brushed aside worries about the recent decline in the international oil price and dealers are now concentrating on the notential for more costcutting in the group's European operations.

NatWest Securities is a fan of the stock and has been urging investors to "add" to holdings. In a note to clients, the broker said: "The trend towards accelerated dividend growth continues, backed by the strength of cashflows, balance sheet and the drive towards improving returns on capital."

In the rest of the sector, Enterprise Oil continued to languish and gave up another 21/2 to 516%p, while the sellers also had the upper hand in BP, which left the shares trailing 5% to 647%p after trade of 6.1m.

Food stocks were among the big fallers in the FT-SE 100, including Tesco, despite its sparkling interim results. Tesco, which has taken market share from its comnetitors as well as discounters in the sector, said that like for like sales in the cur-

rent trading period were up 7.5 per cent. But Tesco fell 5½ to 297p, a response, said some analysts, to fears over a price war in the sector, following Tesco's new price initiative. One analyst said he believed Tesco had been "a bit hard done by" with the market J Sainsbury, which is seen

as one of Tesco's main victims, fell 9 to 369%p, while closing highs. They closed tims, fell 9 to 369%p, while 4% ahead at 987p, having Asda fell 5% to 103p and Safeway 5½ to 326½p. Taylor Woodrow softened

3 to 173p despite interim

results at the top end of expectations. Analysts, some of whom ungraded their forecasts, said there were concerns about margins on international contracts. SGST reiterated its "hold" stance and said the rating was now at a level which fully discounted the growth prospects and, "given the management's unnerving record of finding corporate banana skins, particularly in contracting, the recent rally should be seen as an opportunity to take profits". There was profit-taking in a num-

Brisk trading in Shell over-reacting to the extent of exposed to Germany and which have risen recently on sentiment that the German economy is improving. RMC Group fell 28 to 1,167%p while Redland softened 11 to 461%p, with Merrill Lynch advocating profit-taking in

> Caradon fell 8 to 248%p after its appropriement that it had increased its exposure to the German market by increasing its stake in Weru, a German window and doors maker, to 64.8 per cent from the initial 50.1 per cent it gained in 1995.

Among transport issue there was a two-way pull in property and shipping group P&O as it reported interim figures. The shares eased a penny to 593%p after trade of

The group confirmed it is in talks with competitors ber of building materials about cross-channel ferry stocks which are heavily operations.

FINANCIAL TIMES EQUITY INDICES

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Bass softened 9 to 793%p on fears that its trading statement this week could contain bad news. Analysts said this was highly unlikely. Whithread fell 6 to 695%p and Scottish & New-castle 5% to 676p on the

H P Bulmer, which was shaken but recovered after Matthew Clark's revelations last week about alcoholic lemonades biting into cider sales, fell 16 to 549p. One analyst said the market may be hearing that those Bulmer's brands, which are equivalent to Matthew Clark's, were also suffering a fall in sales. But the analyst said these premium white cider brands are not as important to Bulmer's prof-

Charles Savoy Hotels climbed 30 to 1362%p after better-than-expected interim results. Interim results described

its as they are to Matthew

by one analyst as "appalling" were responsible for Vardon falling 19% to 88%p. Dmatek hardened 15 to 87%p after specialist technology fund Star Venture Fund of Munich bought a 15.5 per cent stake in the company's AVT subsidiary.

Internet access provider Easynet Group was by far the best performer in the market after the shares rose by nearly 40 per cent. They imped 23 to 81%p. The group said it had

signed an agreement with Microsoft Corp of the US, whereby access to the Internet through Easynet is to be included in Windows 95. Shares in specialist compo

nents group Roxboro Group tumbled 80% to 282%p following a profits warning from the company. Analysis year profit expectations which saw the market consensus shift from £18m to filten for the full year.

FT - SE Actuaries

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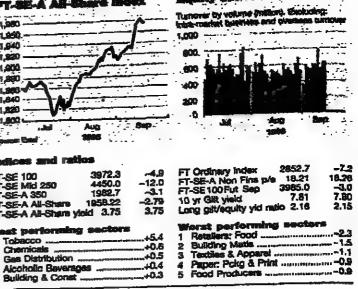
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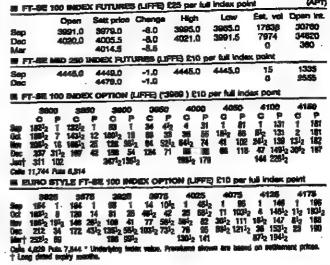
FUTURES AND OPTIONS However, analysts at Credit Lyonnais Laing said they remain "cautiously optimistic on the basis of the new product lines", and suggested investors should buy on weakness."

Treats Group tumbled 34 to 100%p, a fall of 25 per cent, after the ice-cream maker said it was unlikely to make a second half profit after a cooler summer season. Treats' troubles prompted Kleinwort Benson to relterate its "sell" stance on Unilever, which is heavily exposed to ice

Unilever, which has risen substantially over the past few weeks on the back of reorganisation hopes, fell

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TRADING VOLUME LONDON RECENT ISSUES: EQUITIES

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Continuing substantial growth

Summary interim results for the 6 months to 30 June 1996				
	1996	1995	Increase	
Turnover	£116.6m	£94.6m	23%	
Operating profit	£11.2m	E8.6m	30%	
Profit before tax	£11.3m	£8.6m	31%	
Profit after tax	£7.1m	£5.3m	34%	
Earnings per share	11.4D	8.9p	28%	
Interim dividend	2.0p	1.60*	25%	
(payable on 20 Hovember 1996 to all sharehol Ca-divisioni date is 7 October)	iders on the share register on 15	October 1996.		

- Pre-tax profits up 31% to £11.3 million
- 23% growth in Group turnover virtually all organic
- Group operating margin up from 9.1% to 9.6%
- Netherlands strong growth continues: turnover up 32% to £79.8 million
- UK improvement gathers pace: profits up 78% to £1.7 million
- Average staff numbers 2880, up 26% on same period last year On the outlook for the remainder of the year, CMG Chairman Cor Stutterheim said, "The Group performance since the end of June continues to be very

satisfactory and the principal markets in which we operate remain strong. Having delivered good results in the first half of the year, we are confident that the second half, traditionally CMG's stronger half, will enable us to deliver very good results for the full year. We remain well placed to benefit from the strong growth anticipated for our industry in the years ahead."

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The Financial Times plans to publish a Survey on

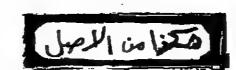
on Monday, October 28.

The survey will look at the country's economy, solities, financial markets, foreign policy and more. For more information on advertising opportunities in this survey, please contact: Michael Geach in New foric Tel: (212) 688-6900 Fax: (212) 688-8229 or luan Martinez Dugay in Mexico: Tel: (525) 395-5888 Fax: (525) 395-4985 or your usual Financial Times representative. FT Surveys

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Dow slides on renewed rate worries

Wall Street

Renewed interest rate worries sent US shares modestly lower at midsession although a strong earnings forecast from Intel, the world's largest semiconductor company, helped to boost technology shares, writes Lisa Bransten in New York.

At 1 pm, the Dow Jones Industrial Average was off 17.02 at 5.872.18 and the Standard & Poor's 500 had lost 1:60 at 682.38. The American Stock Exchange composite fell 4.58 at 566.36. NYSE vol-



Shares jumped at the opening bell but quickly began to fall after a news agency reported that, according to an anonymous source, eight of 12 Federal Reserve officials favoured raising the discount rate. Both the Dow to new records in the previous two sessions as weak

economic data had led many

investors to abandon fears of

an interest rate increase Positive news from Intel helped the Nasdaq composite, which is about 40 per cent technology shares, to remain in positive territory, worries. Intel shares jumped \$5% or 6 per cent at \$93% after the company said late on Monday that it expected sales and profits for the than it had previously indi-

Near 1 pm, the Nasdaq. which gained as much as 11.32 in early trading, was 5.85 stronger at 1,199.81. The Pacific Stock Exchange technology index advanced 1.1

Some of the sharpest gains came in semiconductor and panies, Texas Instruments added \$1% at \$50%, LSI Logic rose \$1% at \$23% and Chrus

Rising computer compa-nies included Dell Computer, \$3% stronger at \$82%, Gateway 2000, which added \$2% at \$49% and Compaq Computer, which climbed \$2% to

Elsewhere, tobacco compa nies gained after a Florida court undermined efforts by the state to recoup healthcare benefits paid to victims of smoking-related illnesses. Shares in Philip Morris added \$1% at \$93%. RJR Nabisco climbed \$% at \$26% and American Depositary Receipts of BAT Industries rose \$% at \$14%.

TORONTO shrugged off a dull opening on Wall Street to notch up a modest advance during the morning. At noon, the TSE-300 com posite index was 1.53 ahead at 5,267.39.

Among the 14 sub-groups in the index, merchandising scored the best gain, rising 2.8 per cent on the back of a C\$7.50 jump to C\$54.00 at Loewen Group. Mining stocks added 0.5 per cent. On the downside, real estate fell

0.4 per cent. Among the blue chips. Alcan gained 50 cents to C\$43.50 and Northern Telecom gained 10 cents to C\$74.20. Canadian Pacific added 15 cents to C\$32.15 Imperial Oil retreated 90

Mexico City higher

Mexico City was higher at which were expected to be midsession, led by the mar- good. ket heavyweight, Telmex, that the benchmark 28-day Cetes rates would fall by at least 100 besis points at yesterday evening's primary

Telmex A and L series shares were up 2.5 per cent and 1.8 per cent respectively after James Capel upgraded the stocks on Monday and ahead of quarterly results

The IPC index was 12.13 3,323.74. BUENOS AIRES was flat

sion taking its lead from Wall Street instead of the local political situation. The Merval index, which rose 1.2 per cent on Monday, stretching its gains over the past two weeks to 7 per cent, edged 0.8 down at midsession to 547.13.

S Africa rallies strongly

FT/S&P ACTUARIES WORLD INDICES

Day's Change %

.167.28

turnaround in the second half of a busy session, recovering early losses and mov-ing higher on the back of a firm Wall Street.

The industrial index finished 26.2 better at 8,211.7 elevating the overall index to 6,947.1, 20.8 higher. SA Breweries was up 250 cents to R133.75, Remgro gained R1 to R42.25, Standard Bank lifted R1 to R184 but Liberty lost 175 cents to R136.50.

NATIONAL AND REGIONAL MARKETS

The World Index (2415).....213.89

Gold stocks gained upward momentum in afternoon dealings retracing the losses made at the futures expiry on Monday. The gold index ended 25.2 firmer at 1,776.5. Vaal Reefs rose R11

to R396. Turnover was a healthy R518m which surprised those who had expected a sharp drop in activity in the wake of Monday's expiry of September equity index

159.96 138.75 170.71 144.10 131.28

0.5 203.68 149.22 167.86 184.22

Paris turns back after eight winning days

Street finally got the better of PARIS and the market closed modestly lower to end an eight day winning streak. The CAC-40 index finished off 5.33 at 2,080.86.

The market, remarkably steady for most of the day. looked set to rack up another useful advance right up to the final hour of trading. By then, the earlier resilient mood had crumbled and, amid signs of profit-taking, shares came off intraday peaks.

Once again there was no shortage of special situations. Michelin was awarded several rosettes by a market pleased with the tyre giant's first half results. The shares added FFr5.10 to FFr265.2 as brokers upgraded profit forecasts for the full year. Chemicals leader Rhone

Poulenc was equally positive, eaining FFr1.0 to presentation in Paris by its US unit. Rhône Poulenc

Societé Générale put on FFr6 to FFr590 in advance of today's interims. Cheuvreux de Virieu took Credit Local de France off its list of recommended stocks, and the shares fell FFr5.2 to

Dull interims from Hermes hit the luxury goods group, LVMH. The shares came off

Open 18.30 11.00 12.00 18.00 14.00 15.00 Cloud FT-SE Gardinek 100 1708.42 1701.43 1701.20 1700.63 1700.66 1701.24 1701.49 1668.55 FT-SE Eurotrick200 1770.72 1789.95 1780.78 1780.43 1780.11 1780.78 1780.31 1785.61 1887.91 1678.88 1685.66 1686.46 1783.08 1747.48 1735.18 1737.80 1771.51

Beghin-Say retreated FFr17 row's first half earnings.

FT-SE Actuaries Share In

FRANKFURT ended lower after pushing up to new intra-day highs at the opening bell. The futures market was visibly weak ahead of Friday's expiry for the DAX September contract.

According to dealers, there was no real weight of selling but equally no follow through from Monday's strong session. The Dax September future came off 7.0 to 2,624, and the DAX index ended 3.81 lower at an Ibisindicated 2,626.43.

Retailers turned in some of the heaviest losses with Metro down DM1.20 at DM139.80 ahead of this week's interim results and Karstadt slipping DM8.00 to DM537.0.

MILAN continued to feel shock waves as Olivetti crashed another 10 per cent and then suffered repeated

which lowered first half

earnings forecasts after the

market closed, rose Y20 to

Y1,190, Daiwa Securities

and distributors, pushed

higher in recent sessions by

oil price strength, were

among the few losing sec-

tors. Showa Shell Sekiyu fell

Y10 to Y1,140 as the profit-

takers moved in. Cosmo Oil

dipped Y13 to Y622 and Ara-

In Osaka, the OSE average

rose 439.37 to 22,079.63 in vol-

ume of 39.2m shares. Nin-

tendo, the video game maker, rallied Y400 to

Wall Street's highs and th

view that a near term rate

rise would not hit stocks

hard helped HONG KONG to

maintain an inward track to

close at its highest level

closed up 53.71 at 11,621.61, off a peak of 11,645.35, in

Swire Pacific was the star blue chip, gaining HK\$1 to HK\$69.50, on improved senti-

ment surrounding the resi dential property market.

Hutchison put on 70 cents to HK\$49.80 and China Light

added 20 cents to HK\$34.50.

performed the market, with

the Hang Seng Chinese

Enterprise Index showing a

SINGAPORE closed

stocks and selected blue chips posting smart

advances. The Straits Times

industrials index closed 34.56

decline of 0.5 per cent.

China-incorporated H shares significantly under-

hefty turnover of HK\$7bn.

The Hang Seng Index

since February 1994.

Roundup

bian Oil lost Y20 to Y4.800.

Some petroleum refiners

added Y30 to Y1,290.

FFr36 to FFr1,130. Eridania abortive efforts were made to retrade the share. The stock finished L51 lower at L465, taking losses since the start of last week to 41 per

> Yesterday's decline came as investors awaited the troubled company's response the Consob bourse watchdog on its half year results. Analysts said that reports that the former chairman, Mr Carlo De Benedetti and the new chairman. Mr Antonio Tesone, were under investigation by the Ivrea prosecutor's office, concerning allegations of false accounting, broke too late to affect the

market.

The broad market was weak and the Comit index finished 3.87 down at 603.16. AMSTERDAM shares mostly marked time ahead of today's budget statement and Friday's index futures expiry. In subdued trading, the AEX index dipped 8.90 to

EUROPEAN EQUITIES TURNOVER Monthly total in local currencles (bn) Joly 1996 June 1996 87.28 110.84 84,748 109.46 37.96 15:38 11:77 247.55 124.14 41,528 54.928 25.41 4.85 7.14 17.53 46.70 24.40 1,586.70 44.20 32.28 1,486.43 29.80 892.84 119.40 116.00

Holiday-induced inertia made for a sharp slowdown in trading activity on the European bourses last month. After a busy July, domestic volumes fell 26.3 per cent in August with the largest falls seen in France, Switzerland and Spain. The biggest gains in domestic volumes in August came in the Nordic markets, where late June and July is the traditional holiday period. In Norway, domestic voles rose 22.1 per cent while in Pinland domestic volumes were 18.9 per cent higher. Mr James Cornish at NatWest Securities says that, looking beyond the seasonal holiday factor, it is notable that August's domestic volumes were down 1.3 per cent on their year earlier levels. "Weakening es are not a good omen for the longer term prospects of the markets," he says.

ders to FL 265.10 on ice-cream worries. Kleinwort Benson reiterated its sell stance on the stock after dull results from rival UK ice-cream maker Treats.

Unilever shed Fl 4.70 guil- first gain since Friday's disappointing results, thanks partly to abort covering. The shares added Ft 2.00 to F1 L305.00.:

ZURICH was pressured by Wall Street's opening losses

3,690.0, as derivative-linked transactions also put some blue chips under heavy pressure. Nestlé, selling itself on a US roadshow, remained under pressure triggered by last Friday's restrained outlook for the second half of the year. The shares fell SFr9 to SFr1,389.

SBC eased 75 centimes to SFr236.75 with news of today's unscheduled news conference coming after the market closed.

Esec, the high-tech group, rose SFr425 to SFr5,050. HELSINKI was higher for a fourth straight day. encouraged by Nokia's gains on Wall Street, but prices were unable to maintain their best levels and the Hex index finished 3.86 ahead at 2,156.63. Nokia peaked at FM201, but found that level unsustainable. It still closed FMI higher on the day at

FM197.50. ISTANBUL jumped 1.7 per cent, adding to Monday's 1.5 per cent advance, as investors demonstrated a positive view of the outlook and lower yields and a heavy mand at the day's 189-day T-bill auction contributed to market morale. The IMKB-100 index closed 1,125.81 ahead at a day's high of 66,944,77. -

Written and edited by Michael

ASIA PACIFIC

Nikkei jumps 2.3% to regain 21,000 point level

Tokyo

Japanese shares were pushed ahead by Wall reet's Monday night gains and the Nikkei index clawed back to the 21,000 level for the first time since late August, writes Emilio Tera-

The Nikkei 225 index jumped 2.3 per cent, rising 467.95 to 21,310.59 after trading between 20,929.06 and 21,365.86 during the session. Domestic investors returned to the market, attracted by foreign buying of international blue chins

Volume totalled 426m shares down from Friday's 705.7m, when turnover was inflated by the settlement of Nikkei September futures and options contracts. Improved sentiment helped the futures market, prompt-

ing arbitrage buying The Topix index of all first section stocks rose 29.21, or 1.9 per cent, to 1,604.96 and the Nikkei 300 gained 5.59 to 299.24. Advances overwhelmed declines by 1,042 to 127, with 98 issues remaining

In London, the ISE/Nikkei 50 index rose 0.08 to 1,441.65. Export-oriented internablue chips were higher. Toyota Motor rose Y60 to Y2,780, Nissan Motor gained Y19 to Y888 and Honda Motor rose Y50 to

High-technology stocks were also higher with NEC up Y20 to Y1,190, and Hitachi adding Y10 to Y1,030. Sony, unaffected by its personnel reshuffle at its US entertainment subsidiary.

rose Y70 to Y7,020. Domestic demand helped steel shares. Nippon Steel edged up Y3 to Y345, Kawa-saki Steel gained Y10 to Y373. NKK, the most active issue of the day, added Y6 to

Gross Div. Yield

higher at the day's high of 40-cap index rose 17.44 to recently on worries about 2.189.05. City Developments jumped weak earnings as a result of sluggish stock market activ-70 cents higher to S\$12.20 pushing the SES Property ity in July and August, unded. Nikko Securities.

index up 26 per cent. attracted active demand from European funds for a second straight day and the composite index finished 3.33 higher at 1.134.68. in volume that picked up sharply to 372m shares.

Among leading index stocks, Tenaga and Telekom each rose 10 cents to M\$9.00 WELLINGTON gained

ground as bid activity provoked buying interest. The

Bid target Wilson and Horton, the publishing group, jumped almost 11 per cent on news of an offer from

Independent Newspapers of Ireland, which already owns 45 per cent of Wilson. The stock ended up NZ\$1.05 at-NZ\$10.75. Other media stocks were active, notably INL, which added 35 cents to

SYDNEY closed lower after a setback for resource stocks on the back of softer base metals prices. The All Ordinaries closed 13.4 off at 2.254.4

BHP closing 48 cents down at A\$16.00. CRA dipped six cents to A\$18.50 and WMC shed eight cents to A\$8.27. Tornover in the sector was described as busy.

Banks continued improve. National Australia Bank gained 16 cents to A\$12.71

TAIPEI reversed a strong start to end lower. The ighted index ended 40.02 ighter at 6.478.44 after a session best of 6,552.27. Electronics stayed on the upside. Holtek Microelectronics gained T\$1 to T\$31.9.

BANGKOK was easier on Blue chip resource shares the eve of today's crucial

debate. Dealers said the four day rally had sparked modest profit-taking. The SET index came off 8.52 to

SHANGHAI Was again pressured by concerns that Beijing would tighten up on domestic investors trading in hard currency B shares and the index fell 0.343 to 50.059.

The market has been on a downward trend for the last six weeks, losing almost 6 per cent since mid-August, on worries about new regulations and some poor corporate results posted in July and August

BXEGU

LIFFE's Three Month ECU Future

Designated Market Makers

Istituto Bancario San Paolo di Torino S.p.A.

Kredietbank N.V.

NatWest Futures Limited (acting on behalf of NatWest Markets)

SGF Chase Futures & Options (acting on behalf of The Chase Manhattan Bank)

UBS Futures & Options Limited (acting on behalf of Union Bank of Switzerland)

On 18 June LIFFE renewed its Designated Market Maker scheme for the Three Month ECU futures

The Designated Market Makers are now committed to the tightest bid/offer spreads and greatest size ever: four ticks maximum, fifty lots minimum on all eight delivery months.

This is important news, particularly for the execution of business in the four back months of the contract, where you can now get better liquidity for all of your trading needs.

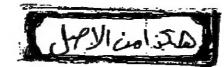
For further information on LIFFE's Three Month ECU futures contract please contact David Angel or Richard Powell (tel. +44 171 379 2436/2419) at

LIFFE's Three Month ECU Future. Trading from Strength to Strength.



The London International Financial Futures and Options Exchange

| Dollar | Index | Ind 194.10 142.20 169.36 123.34 207.14 151.75 174.96 128.10 159.30 116.70 304.79 223.29 202.90 148.43 185.68 136.04 189.43 124.13 419.88 307.46 190.70 139.71 279.52 204.78 71.65 52.49 136.87 100.27 538.65 384.62 1203.85 881.94 0.7 0.8 0.2 0.7 0.5 0.1 1.4 0.2 1.5 0.4 -0.9 0.1 0.6 131.28 100.01 261.16 253.00 168.97 203.10 153.05 157.28 139.63 139.63 345.86 437.52 157.16 285.39 230.35 258.76 59.05 85.63 112.80 100.27 200.26 112.80 100.27 443.91 544.18 992.10 10387.32 236.94 233.21 87.28 65.52 lopan (481). 287.51 210.63 81.84 59.81 242.77 177.85 197.45 144.65 380.72 278.92 .309.81 336,15 246,25 277,01 169,44 124,14 139,64 358,03 262,29 296,06 233,58 171,12 182,49 109.39 196.43 242.57 177.71 207.34 151.90 306.63 224.64 150.73 110.42 174.18 127.51 258.81 189.61 186.11 136.35 253.52 241.79 176.96 199.33 213.18 254.73 216.17 216.52 206.50 161.13 170.24 188.60 217.74 181.44 319.77 304.92 223.16 251.36 216.65 177.85 169.55 110.18 124.11 111.89 177.51 148.86 182.16 173.73 127.15 143.23 140.81 190.57 186.51 2.12 3.02 2.34 1.23 2.12 2.13 2.46 2.96 2.11 1.92 2.48 Nordic (137)..... Pacific Besin (878) 143.55 213.29 257,97 188,80 185,18 135,52 272,85 199,54 175,26 128,34 188.80 212.68 289.82 271.78 230.17 232.56 185.52 152.86 180.86 195.76 170.51 173.73 153.38 161.31 226.80 249.49 144.91 146.13 165.16 178.92 180.85 195.76 170.51 173.73 248.37 296.85 243.59 262.40 145.86 191.55 167.38 172.97 275.20 201.62 175.84 128.82 175,84 128,82 144,91 200,41 146,82 165,16 239,58 175,62 197,45 144.57 199.90 146.23 154.72 238.82 174.84 196.72 178.19 213.05



0.4 2.12 212.93 203.08 148.83 167.42 183.48 214.85 188.87 182.88